

# 2019 Annual Report and Audited Financial Statements

Celebrating the Railways Pension Scheme's **Silver Jubilee** – 25 years serving our members

Happy silver anniversary to the Railways Pension Scheme (RPS).

In 2019, the RPS celebrated 25 years of serving members and paying pensions securely, affordably and sustainably. To mark the silver anniversary theme, the front cover features the Silver Jubilee train from London and North Eastern Railway – Britain's first streamlined train.

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“ On behalf of your Trustee Board it gives me great pleasure to introduce the Annual Report and Audited Financial Statements of the Railways Pension Scheme ('RPS' or 'the Scheme') for the year ended 31 December 2019. ”

The year was generally a strong one for investment returns. The Growth Pooled Fund, which is the largest investment of the Scheme, recorded absolute gains of 18.0% against an inflation based comparator return of 6.3% following a positive year for global equities, UK commercial property and fixed income. Against this backdrop, the Passive Equity and Global Equity pooled funds generated the strongest annual performance with returns of 25.4% and 25.3% respectively, which were ahead of their comparators. The Infrastructure Fund, Non-Government Bond Fund and Long Duration Index Linked Fund also returned gains in excess of, or equal to, their comparators. The Scheme's second largest investment, the Private Equity Pooled Fund, delivered a return of 8.5% which although positive was below its comparator. The Illiquid Growth, Government Bond, Short Duration Index Linked and Cash pooled funds also delivered returns slightly below their comparators despite generating absolute gains during the year. The Long Term Income Fund recorded a return of -0.7%, which was behind its comparator.

2019 saw the continued implementation of many of the initiatives begun in previous years as we further developed our in-house asset management capability – particularly in respect of equities and private markets. We have further increased our allocation to internally managed Alternative Risk Premia ('ARP') strategies which identify underlying drivers of return and build portfolios cheaply and systematically and we have also gradually increased our allocation to the Fundamental Growth Portfolio ('FGP'), a concentrated portfolio investing in industry leading, innovative companies with sustainable structural earnings growth. As a result, we now manage over 90% of the Growth Pooled Fund's equity allocation in-house, providing the Scheme with a saving in management fees

compared to the use of external management. This year also saw us continue to reshape our property investments as we seek to increase the profitability of the portfolio. Within the Illiquid Growth Pooled Fund we made further allocations to investments focused on communication, innovation and financial services. The Long Term Income Fund also made a number of new investments, including its first direct equity investment of a subsidy-backed, near-operational wind farm in Scotland.

As stated in prior years' annual reports, we are also implementing a change programme for administration and trustee services, 'Chrysalis'. This programme includes the replacement of the current pension administration system, but is intended to deliver much more than that. It will transform the way in which RPMI, our administration business, operates. Throughout Chrysalis we have engaged our many stakeholders, including a Trustee Advisory Board devised to represent the views of the members and employers participating in the Scheme. We always remain aware that the railways pension schemes cover a wide variety of organisations, from the very large, to those with only a handful of members, so the Trustee's role is to ensure that a high-quality and cost-effective service is delivered for all sponsoring employers.

I am pleased to announce that throughout the year we have begun the transfer of active and preserved members onto the new system through a phased implementation that is continuing into 2020. We will continue engaging with members, employers and other stakeholders as we deliver this exciting change, and keep investing in RPMI to maintain a quality service for our members that demonstrates excellent value for money, and meets the needs of the modern world.

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## Chair's Introduction

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During 2019 the RPS submitted its application for the IWDC section to be approved by The Pensions Regulator ('TPR') as an Authorised Master Trust. This followed the announcements made by the government in 2018 regarding better regulation of Master Trust DC arrangements. We were pleased to receive the TPR notification that we had successfully secured Authorised status in the summer of 2019. This is important for us as we want to ensure that the RPS is able to fully support the pensions provisions for the railway industry and its employees.

In 2019 we began a significant project to make sure that the Scheme equalised its GMP benefits following the October 2018 High Court ruling that the Lloyds Banking Group Pension Schemes must equalise benefits in this area. An early part of this project is to assess the materiality of the requirement for scheme funding. As expected the Trustee's professional advisers were able to confirm that the required increase in pension obligations is not material to the overall Scheme funding position and there are only a very small number of sections where it is of more consequence. This substantial project is now looking at the practical implementation considerations of several potential ways in which equalisation can be achieved as the Lloyd's judgement allows for different approaches to be taken. The Trustee remains in some of the earlier stages of assessing the impact on the RPS and it is likely to be some time before this is complete.

The recent election means that the Pensions bill originally published in the autumn of 2019 is now due to be put before parliament. This bill is likely to introduce a number of obligations on the scheme including participation in the Pensions Dashboards initiative and the Trustee is working on the best route to deliver this.

On behalf of the members, employers and my fellow Trustee Directors, I would like to thank John Mayfield who stepped down as Chair of the Audit & Risk Committee and the Trustee Board on 31 March 2020, having served in these roles since 2007 and 1996 respectively. John joined the Board shortly following rail privatisation, and has been an exceptional Committee Chair and Trustee Director, with the Scheme having been fortunate to benefit from John's knowledge of the rail industry and audit practice over the past 24 years.

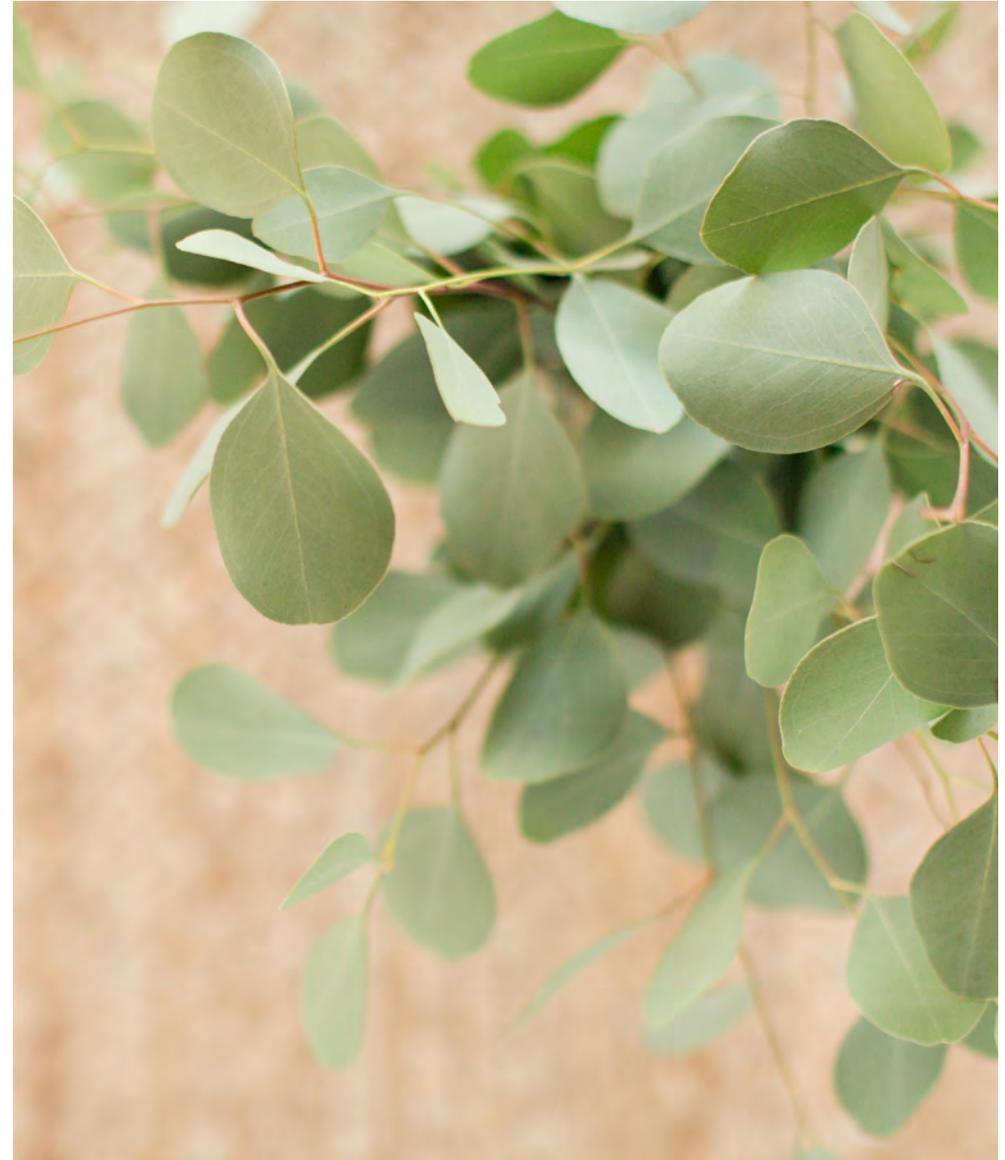
During the year Anthony Cotgreave retired from the Trustee Board, and I would like to record both mine and the Trustee Board's gratitude for his significant contribution to the Scheme during his 14 years' service. I am pleased to announce that Peter Holden and Richard Murray were appointed as Trustee Directors during the year. I would also like to take this opportunity to record my gratitude to all the Trustee Directors who have served during the year. The demands on Trustee Directors' time continues to increase in order to meet regulatory changes and compliance requirements, whilst ensuring that pensions can continue to be provided securely, sustainably and affordably. The wide range of individual Trustee Directors' knowledge and expertise is invaluable in ensuring that your Trustee continues to have a broad understanding of the railway industry and can represent effectively the interests of its many stakeholders.



**Christopher Hannon**  
Chair, Trustee Company

# Silver eucalyptus

There are many types of eucalyptus, but the most popular in floral design are seeded eucalyptus, baby blue, and silver dollar.



# The Railways Pension Scheme

**Cu**

[Ar]4s<sup>1</sup>3d<sup>10</sup>  
copper  
63.55

**Zn**

[Ar]4s<sup>2</sup>3d<sup>10</sup>  
zinc  
65.39

46

**Pd**

[Kr]4d<sup>10</sup>  
palladium  
106.4

47

**Ag**

[Kr]5s<sup>1</sup>4d<sup>10</sup>  
silver  
107.9

48

**Cd**

[Kr]5s<sup>2</sup>4d<sup>10</sup>  
cadmium  
112.4

49

**In**

78

**Pt**

[Xe]6s<sup>1</sup>4f<sup>14</sup>5d<sup>9</sup>  
platinum  
195.1

79

**Au**

[Xe]6s<sup>1</sup>4f<sup>14</sup>5d<sup>10</sup>  
gold  
197.0

80

**Hg**

81

**Tl**

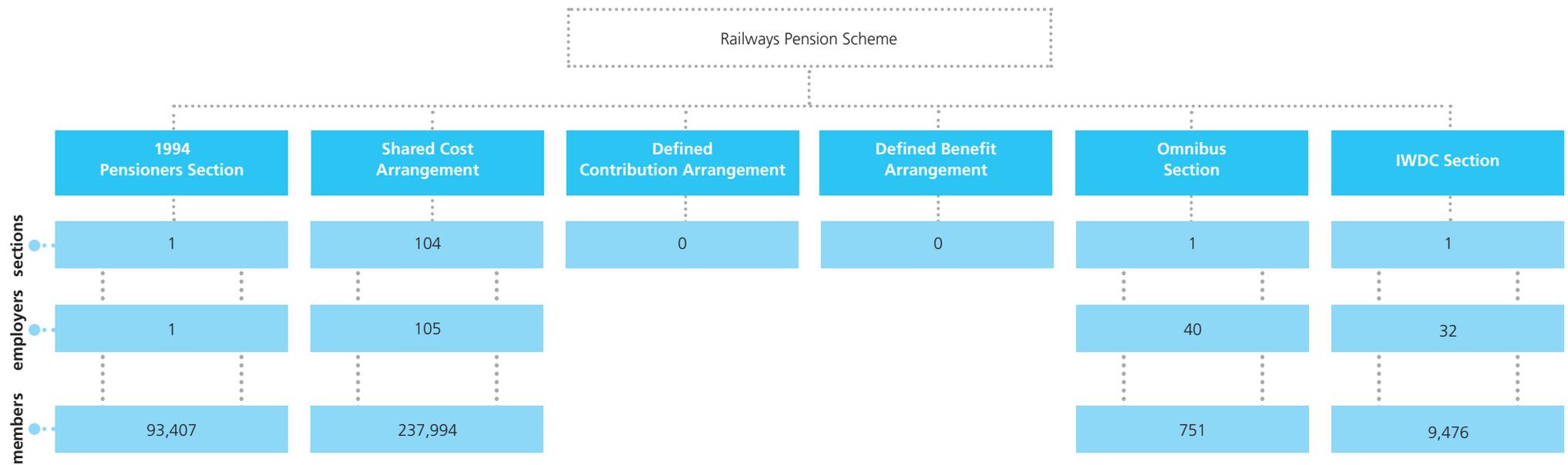
## Silver element

Silver has the chemical symbol **Ag** and is a white lustrous metal valued for its decorative beauty and electrical conductivity.

The RPS was created in 1994 after the privatisation of the railway industry and reorganisation of the British Rail Pension Scheme.

It is the largest of the four pension schemes managed by the Trustee and one of the largest schemes in the UK. It provides pensions for 149 (2018: 144) companies operating within the privatised railway industry.

The RPS comprises six parts: the 1994 Pensioners Section, the Shared Cost Arrangement, the Defined Contribution Arrangement, the Defined Benefit Arrangement, the Omnibus Section and the IWDC Section. Employers may participate in more than one arrangement and in more than one section of the Shared Cost Arrangement. There are 107 sections (2018: 112 sections) across the six parts of the RPS as illustrated below:



## Advantages of an industry-wide scheme

The industry-wide structure allows the assets to be combined into 'pooled funds'. These investment funds are significantly larger than would be possible were sections to invest their assets separately, resulting in several advantages for the schemes and sections.

For example, the asset allocation needs of sections can be considered separately from the appointment and monitoring of individual investment managers. The size of the pooled funds also allows all sections to benefit from economies of scale in investment management costs and access to a wide range of investments. Sections wishing to invest in pooled funds in the first instance, where possible, buy pooled fund units from sections wishing to sell, thus avoiding some of the external investment transaction costs.

## The industry-wide nature of the RPS can simplify the movement of employees between railway companies, allowing them to change employers while remaining in the same pension scheme.

The Trustee provides high-quality pensions services through its experienced administration, investment, secretariat, pensions policy, communications and finance teams, benchmarked in terms of quality standards against other providers.

A summary of the main provisions of the Scheme is shown in Appendix F.

## The 1994 Pensioners Section

Pensioners and preserved pensioners in the BR Pension Scheme on 30 September 1994 were transferred into a separate Section of the RPS – the 1994 Pensioners Section. On 30 December 2000, pensioners and preserved pensioners of the BR Section were also transferred to the 1994 Pensioners Section. The assets and liabilities of another six closed railway pension schemes were also transferred to the 1994 Pensioners Section in 2007, after agreement between the Trustee and the DfT.

The Secretary of State guarantees all past service liabilities and pensions in payment of the 1994 Pensioners Section at 1 August 2007, plus any future annual pension increases awarded to the 1994 Pensioners Section members.

## The Shared Cost Arrangement

All active members of the BR Pension Scheme were transferred into the Shared Cost Arrangement on 1 October 1994. Transferred members with protected rights under the Railways Act 1993 have a statutory right to remain in the RPS while they continue to be employed in the railway industry.

A separate section within the Shared Cost Arrangement may be created for each designated employer. Originally, as each BR business was franchised or sold, a proportionate share of RPS assets was transferred to a new section of the Scheme. Subsequent sales and transfers of parts of businesses can now result in the creation or mergers of sections.

As at 31 December 2019, 91 of the 104 shared cost sections had active members and 50 of these shared cost sections remain open to new members. For open sections, employees of the participating employer who are employed in the railway industry

may join the Scheme. New members are not protected under the Railways Act 1993, however, so their pension rights may differ from those who have protected rights. A full list of sections and participating employers is given in Note 11 to the Financial Statements.

## The Omnibus Section

Employers with fewer than 50 members are eligible to combine in a multi-employer Omnibus Section. Employers may remain in the arrangement if their membership increases above 50. At the end of 2019, 33 employers with active members (2018: 28 employers) were part of the Omnibus Section. A full list of participating employers is given in Note 11 to the Financial Statements.

## Defined Contribution Sections, other Defined Benefit Arrangements and IWDC Section

As with the Shared Cost Arrangement, the Defined Contribution Arrangement and Defined Benefit Arrangements are part of the framework of the RPS and exist as possible alternatives to a section on the Shared Cost Arrangement basis. A handful of Defined Contribution sections were set up by employers, but these moved into the IWDC Section when it was created. No employers have set up sections adopting the provisions of the Defined Benefit Arrangement.

The IWDC Section of the RPS exists for rail employers who want to provide benefits on a DC basis.

The IWDC Arrangement was established on 1 November 2001. The IWDC Arrangement aims to provide employers with a flexible defined contribution scheme. At the end of 2019, 32 employers were part of this Arrangement (2018: 25 employers).

At 31 December 2019, there were no members in the Defined Contribution Arrangement as all members in the Defined Contribution Arrangement transferred to the Industry Wide Defined Contribution Section on 14 February 2019. The Trustee may decide to wind up the Defined Contribution Arrangement in the future, as there are not expected to be any further members within it.

## Reporting

There are separate records for each section and each section receives quarterly reports including accounts, investment and administration performance. Each section is independently valued by the Scheme Actuary.

## Pensions Committees

The designated employer of each shared cost section may establish a pensions committee to which the Trustee will delegate certain powers and duties under Appendix 5 of the Pension Trust. This includes responsibilities such as the determination of incapacity and discretionary benefits. Setting investment strategy can also be vested in the committees under Clause 5G of the Pension Trust, subject to the Trustee's approval. All pensions committees have an equal number of employer and member nominees. The chair of the committee alternates annually between the employer and member nominees. The Trustee, however, retains responsibility for supervising how the committees exercise their powers and monitors necessary training undertaken by committee members. There are currently 24 Sections where the designated employer has established a pensions committee. Where a pensions committee has not been established the Trustee itself shall exercise all powers, duties and discretions in respect of that section.



## Key Statistics

### Silver ingots

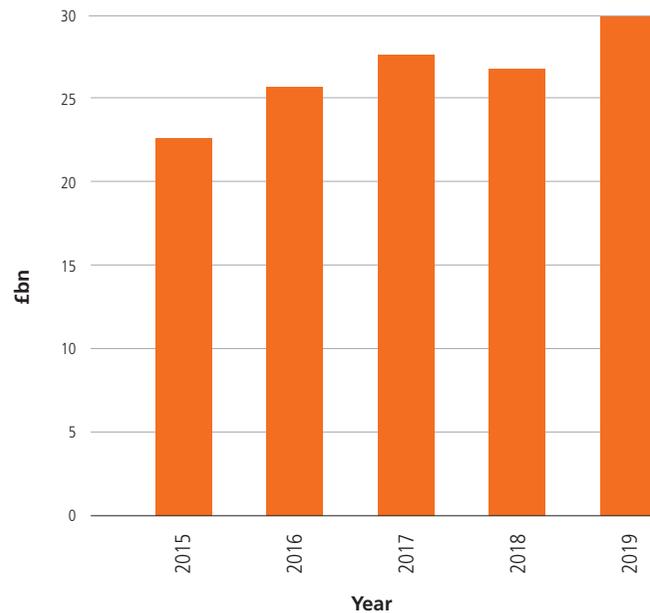
Vikings used 'hacksilver' – chunks of silver bullion chopped off a larger block of the metal – as money.

## Five-year summary of RPS participation

	2019	2018	2017	2016	2015
Sections	107	112	112	113	113
Employers	178	169	173	179	186
Active membership	98,724	95,963	92,472	93,938	90,574
Preserved membership	104,457	107,489	107,400	105,350	106,793
Pensioners	138,447	140,643	140,547	138,731	140,366
<b>Total membership</b>	<b>341,628</b>	<b>344,095</b>	<b>340,419</b>	<b>338,019</b>	<b>337,733</b>

## Five-year summary of net assets of RPS

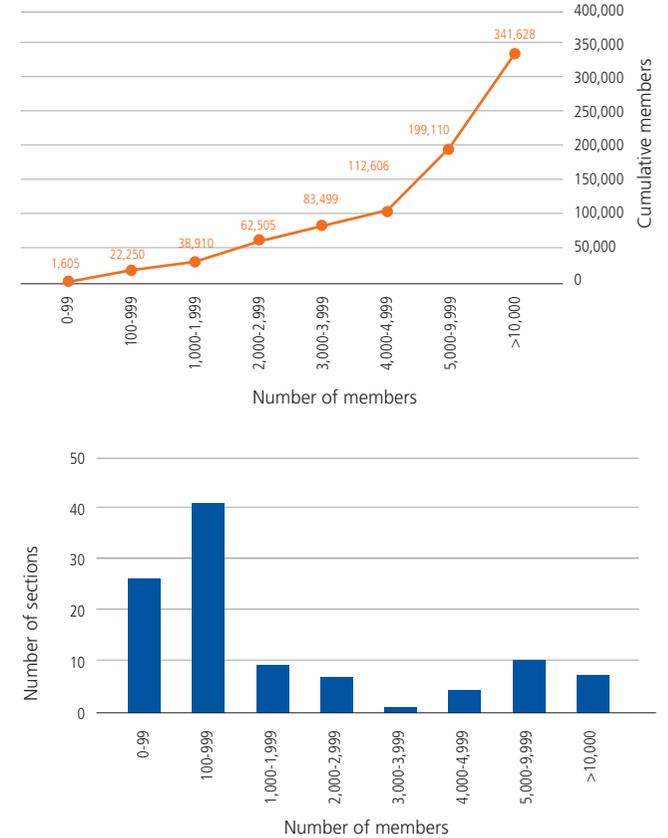
Total assets of the Scheme



## Five-year summary of financial statements of RPS

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
<b>Scheme benefits</b>					
Pensions	861	827	792	775	776
Lump sums	232	225	220	204	181
Death benefits	29	24	22	23	26
<b>Total benefits</b>	<b>1,122</b>	<b>1,076</b>	<b>1,034</b>	<b>1,002</b>	<b>983</b>
<b>Scheme income</b>					
Members' contributions	312	296	281	288	292
Employers' contributions	412	371	362	382	402
Government support	14	15	16	19	18
<b>Total contributions</b>	<b>738</b>	<b>682</b>	<b>659</b>	<b>689</b>	<b>712</b>
Net transfer values	(322)	(44)	(29)	(54)	(13)
Admin expenses	(15)	(19)	(20)	(20)	(18)
PPF levies	(50)	(48)	(39)	(34)	(27)
Taxation where lifetime allowance exceeded	(1)	(1)	(1)	-	-
Net investment income	400	386	290	319	241
Change in market value	3,530	(631)	2,132	3,206	877
<b>Net increase/(decrease) in the Scheme</b>	<b>3,158</b>	<b>(751)</b>	<b>1,958</b>	<b>3,104</b>	<b>789</b>
<b>Net assets of the Scheme</b>	<b>29,910</b>	<b>26,752</b>	<b>27,503</b>	<b>25,545</b>	<b>22,441</b>

## Comparison of membership of sections



## Key statistics for 2019

<b>Total Membership</b>	<b>341,628</b>
<b>Net increase in the Scheme</b>	<b>£3,158m</b>
<b>Net assets of Scheme</b>	<b>£29,910m</b>



# Independent Auditor's Report

## Silver nitrate

Silver nitrate is basically silver salt, an inorganic chemical compound which has powerful antiseptic properties.

## Independent Auditor's report to the Trustee of the Railways Pension Scheme for the year ended 31 December 2019

### Opinion

We have audited the financial statements of Railways Pension Scheme ('the Scheme') for the year ended 31 December 2019 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 December 2019 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme, and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

### Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the Chair's Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

### Trustee's responsibilities

As explained more fully in its statement set out on page 26, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

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Ferguson

**Fang Fang Zhou**

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

19 May 2020



## Silver screen

When audiences first started going to 'the pictures' in the 1910s, movie screens were coated with reflective metallic paint. The silver surface better displayed the projected images.

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**Audited  
Financial Statements**

## **Silver Koi Carp**

Soragoi are koi of a solid grey or silver colour, combined with a subtle net pattern.

## Fund account for the year ended 31 December 2019

	Notes	2019 DB £m	2019 DC £m	2019 Total £m	2018 DB £m	2018 DC £m	2018 Total £m
<b>Contributions and benefits</b>							
Members' contributions	3	308	4	312	292	4	296
Employers' contributions	3	394	18	412	356	15	371
Government support		14	-	14	15	-	15
Individual transfers in		13	5	18	12	1	13
		<b>729</b>	<b>27</b>	<b>756</b>	<b>675</b>	<b>20</b>	<b>695</b>
Pensions		(861)	-	(861)	(827)	-	(827)
Group transfers out	4	(297)	-	(297)	(5)	-	(5)
Lump-sum retirement benefits		(231)	(1)	(232)	(224)	(1)	(225)
Death benefits		(27)	(2)	(29)	(23)	(1)	(24)
Individual transfers out		(41)	(2)	(43)	(51)	(1)	(52)
Taxation where lifetime or annual allowance exceeded		(1)	-	(1)	(1)	-	(1)
		<b>(1,458)</b>	<b>(5)</b>	<b>(1,463)</b>	<b>(1,131)</b>	<b>(3)</b>	<b>(1,134)</b>
Administrative expenses	5	(15)	-	(15)	(19)	-	(19)
PPF levies		(50)	-	(50)	(48)	-	(48)
<b>Total withdrawals</b>		<b>(1,523)</b>	<b>(5)</b>	<b>(1,528)</b>	<b>(1,198)</b>	<b>(3)</b>	<b>(1,201)</b>
<b>Net (withdrawals)/additions from dealings with members</b>		<b>(794)</b>	<b>22</b>	<b>(772)</b>	<b>(523)</b>	<b>17</b>	<b>(506)</b>
<b>Returns on investments</b>							
Change in market value	6	3,910	20	3,930	(239)	(6)	(245)
<b>Net returns on investments</b>		<b>3,910</b>	<b>20</b>	<b>3,930</b>	<b>(239)</b>	<b>(6)</b>	<b>(245)</b>
Net increase/(decrease) in the Scheme during the year		3,116	42	3,158	(762)	11	(751)
Net assets at the start of the year		26,656	96	26,752	27,418	85	27,503
<b>Net assets at the end of the year</b>		<b>29,772</b>	<b>138</b>	<b>29,910</b>	<b>26,656</b>	<b>96</b>	<b>26,752</b>

## Statement of net assets (available for benefits) as at 31 December 2019

	Notes	2019 DB £m	2019 DC £m	2019 Total £m	2018 DB £m	2018 DC £m	2018 Total £m
Pooled funds	6	27,314	136	27,450	24,378	94	24,472
Securities directly held by schemes	6	2,425	-	2,425	2,230	-	2,230
Other cash and cash instruments	6	51	2	53	60	2	62
Current assets	7	49	-	49	34	-	34
Current liabilities	8	(67)	-	(67)	(46)	-	(46)
<b>Net assets at the end of the year</b>	<b>11</b>	<b>29,772</b>	<b>138</b>	<b>29,910</b>	<b>26,656</b>	<b>96</b>	<b>26,752</b>

The notes numbered 1 to 12 on pages 14 to 24 form an integral part of these audited financial statements.

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee on an aggregate basis as this is a multi-employer scheme with financially ring fenced sections.

They do not take account of the obligations to pay pensions and benefits which fall due at the end of the Scheme year. The actuarial position of the Scheme which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities, which is summarised on pages 60 to 70 and should be read in conjunction with these financial statements. Benefits payable for the 1994 Pensioners Section and the BR Section are backed by Crown Guarantees.

Under the Amendment to the Audited Accounts Regulations, effective from 1 April 2016, as the Scheme has more than 20 participating employers at the start of the financial period there is no requirement to obtain a statement from the auditor on whether contributions have been paid in accordance with the schedule of contributions. No summary of contributions has therefore been prepared in these financial statements.

Approved by the Directors of the Trustee Company on 19 May 2020.



**Christopher Hannon**  
Chair, Trustee Company



**Meliha Duymaz Oludipe**  
Director and Chair, Audit and Risk Committee

## Notes to the audited financial statements for the year ended 31 December 2019

### 1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and the guidance set out in the Statement of Recommended Practice (Revised 2018) ('SORP').

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustees' Report.

The Trustee considers the going concern basis to be appropriate and these financial statements have therefore been prepared on this basis. In considering going concern, the Trustee has reviewed the financial position of the Scheme including future plans and ability to pay benefits as they fall due.

With the recent market developments caused by COVID-19, the Trustee has reassessed these factors and has concluded that despite the potential risk that participating employers may face trading difficulties, the sectionalised nature of the Scheme means that the potential failure of any employers will only have impact on the specific sections and not the rest of the Scheme, as such the going concern basis is still appropriate. The reassessment was completed with reference to the Scheme's investment returns, contributions receivable, and

benefits payable, as well as the requirement for the Scheme in the future. The Scheme receives investment income from underlying pooled fund investments which are structured in a way that mitigates the risk of exposure to significant market volatility. The employers most heavily impacted by COVID-19, the train operating companies ('TOC's') have received guaranteed backing by the DfT. No employers have requested contributions holidays except in relation to furloughed staff. The Trustee has ensured that cash reserves are available for a period of at least 3 months to cover any employer's failure to make contributions payments on time. Benefits payable are modest in relation to Scheme assets and as part of COVID-19 contingency planning, cash levels in all section accounts have been increased.

RPMI, which acts as the Scheme administrator has been separately assessed as a going concern. The Trustee is confident that both the Scheme and RPMI will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Additionally, the Trustee has confirmed that it will make the necessary funding available to RPMI should it be unable to meet its liabilities for any reason. On this basis, the financial statements have been prepared on a going concern basis.

### 2. Accounting policies

The financial statements have been prepared on an accruals basis. The principal accounting policies of the Scheme are as follows:

#### Investments

Investments are included in the financial statements at the year end at fair value (except where explicitly stated) using the following valuation bases:

- The majority of the assets of the Scheme are invested in a portfolio of pooled funds, which operate as internal unit trusts for those railway pension schemes under the control of the Trustee. Pooled fund unit holdings are valued on the basis of the unit prices of the units held by the Scheme in each pooled fund at the year end. Unit prices reflect the fair valuations of the underlying assets held by the pooled funds and include income receivable on investments held. Further details of the pooled fund investment accounting policies are set out in the extracts from the pooled fund accounts in Appendix I.
- Assets are held in a portfolio of pooled funds valued at their bid price or last traded price at the year end date, as advised by the investment manager.
- BRASS AVC holdings in pooled investment vehicles are stated at fair value at the year end date as advised by the manager. The PAF is valued as a whole by reference to the fair value of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or over are, however, guaranteed by Aviva to receive at least £1 per unit upon retirement or on earlier death. Members leaving before age 55 may receive a discounted value depending on their age.
- Substitution orders refer to deferred payments due under the Transport Act 1980, and are valued as certified by the Scheme Actuary. The Scheme Actuary is James Mason, of Willis Towers Watson. The Government Actuary, Martin Clarke, is joint Actuary for the 1994 Pensioners Section and the BR Section. Substitution orders are included in the financial statements as financial instruments on a fair value basis, with reference to the expected cash flow.
- Loans and deposits and current assets and liabilities are included at book cost, which the Trustee considers to be a reasonable estimate of accounting fair value.

#### Change in market value

Change in market value mainly comprise gains and/or losses on investments arising in the year and reinvested investment income.

Investment income arising from the underlying investments of pooled funds is reinvested within the pooled funds, reflected in the unit prices and reported within change in fair values.

Realised and unrealised gains and losses on underlying investments, including income receivable, are dealt with in the pooled fund accounts in the year in which they arise and are reflected in the pooled fund unit prices.

#### Contributions and benefits

Contributions are expressed as a rate of pensionable pay. Member and employer normal contributions are accounted for when deducted from pay.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid.

Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedules of Contributions and Recovery Plan under which they are being paid.

Employer s75 debt contributions are accounted for when a reasonable estimate of the amount due can be determined.

Payments under the Transport Act 1980 are accounted for as they become payable. Amounts receivable to extinguish future liabilities under the

Transport Act 1980 are accounted for when the future liability is discharged.

Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.

Under auto-enrolment, employers may auto-enrol or contractually-enrol eligible employees into the Scheme. The employees can then opt out of the Scheme if they wish within one month of being enrolled. Opt-outs are accounted for when the Scheme is notified of the opt-out.

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability. Government support received is accounted for when they are received by the Scheme.

#### Administrative expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration. Direct costs are charged to the section to which they relate. Indirect costs are allocated between sections based on an allocation methodology agreed by the Trustee.

#### Pension Protection Fund levies

PPF levies are accounted for in the year in which they fall due.

#### Transfer values

Transfer values, including PPF transfers, are determined on the advice of the Scheme Actuary and, where applicable, the PPF. Individual transfers in or out are accounted for when received or paid, which is normally when member liability is accepted or discharged. Group transfers are accounted for in accordance with the terms of the transfer agreement. TUPE and other intra-RPS transfers are settled by a mixture of pooled fund units and cash pro rata to the asset mix of the transferring section.

#### Tax

The RPS is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding and capital gains taxes relating to overseas investment income and capital gains. Tax charges are accrued on the same basis as the investment income to which they relate.

### 3. Contributions receivable

	2019 DB £m	2019 DC £m	2019 Total £m
<b>Members' contributions</b>			
Normal	211	3	214
Additional voluntary contributions	88	1	89
Deficit funding	9	-	9
	<b>308</b>	<b>4</b>	<b>312</b>
<b>Employers' contributions</b>			
Normal	312	17	329
Deficit funding	67	-	67
BRASS matching	9	1	10
Augmentation	6	-	6
	<b>394</b>	<b>18</b>	<b>412</b>
<b>Totals</b>	<b>702</b>	<b>22</b>	<b>724</b>

	2018 DB £m	2018 DC £m	2018 Total £m
<b>Members' contributions</b>			
Normal	204	3	207
Additional voluntary contributions	78	1	79
Deficit funding	10	-	10
	<b>292</b>	<b>4</b>	<b>296</b>
<b>Employers' contributions</b>			
Normal	291	15	306
Deficit funding	47	-	47
BRASS matching	10	-	10
Augmentation	8	-	8
	<b>356</b>	<b>15</b>	<b>371</b>
<b>Totals</b>	<b>648</b>	<b>19</b>	<b>667</b>

Deficit funding contributions are being paid into the Scheme by both members and employers, in accordance with the Schedule of Contributions and recovery plans to improve the funding position of sections of the Scheme.

During 2019, there were 262 instances of late payment of contributions with a total value of £5.9m, which represents 0.82% of contributions payable under the schedules of contributions. The largest individual amount was £0.5m, which was paid 2 days after the due date. Of the 262 instances of late payment none were reported to the Pensions Regulator.

Further information on contribution rates can be found in the Report on Actuarial Liabilities on pages 50 to 52. Further information on government support can be found on page 48.

#### 4. Group transfers out

Group transfers out include £271m transferred to the PPF in December 2019 in relation to the Carillion Rail (Centrac) and Carillion Rail (GTRM) Sections.

Group transfers out also include a further £24m transferred to the PPF, following realisation of RPS assets that relate to Sections that have previously transferred to the PPF, and £2m in relation to transfers out as a result of the wind-up of the Comatec Section during the year.

#### 5. Administrative expenses

Pensions administration charges cover the processing of member transactions and preparation of financial statements and other reports. These activities are carried out by RPMI and are allocated in line with the per capita charge.

Administration and trustee governance expenses do not include investment management fees and costs, which are deducted from the unit prices of pooled fund investments and disclosed separately in the pooled fund accounts in Appendix I.

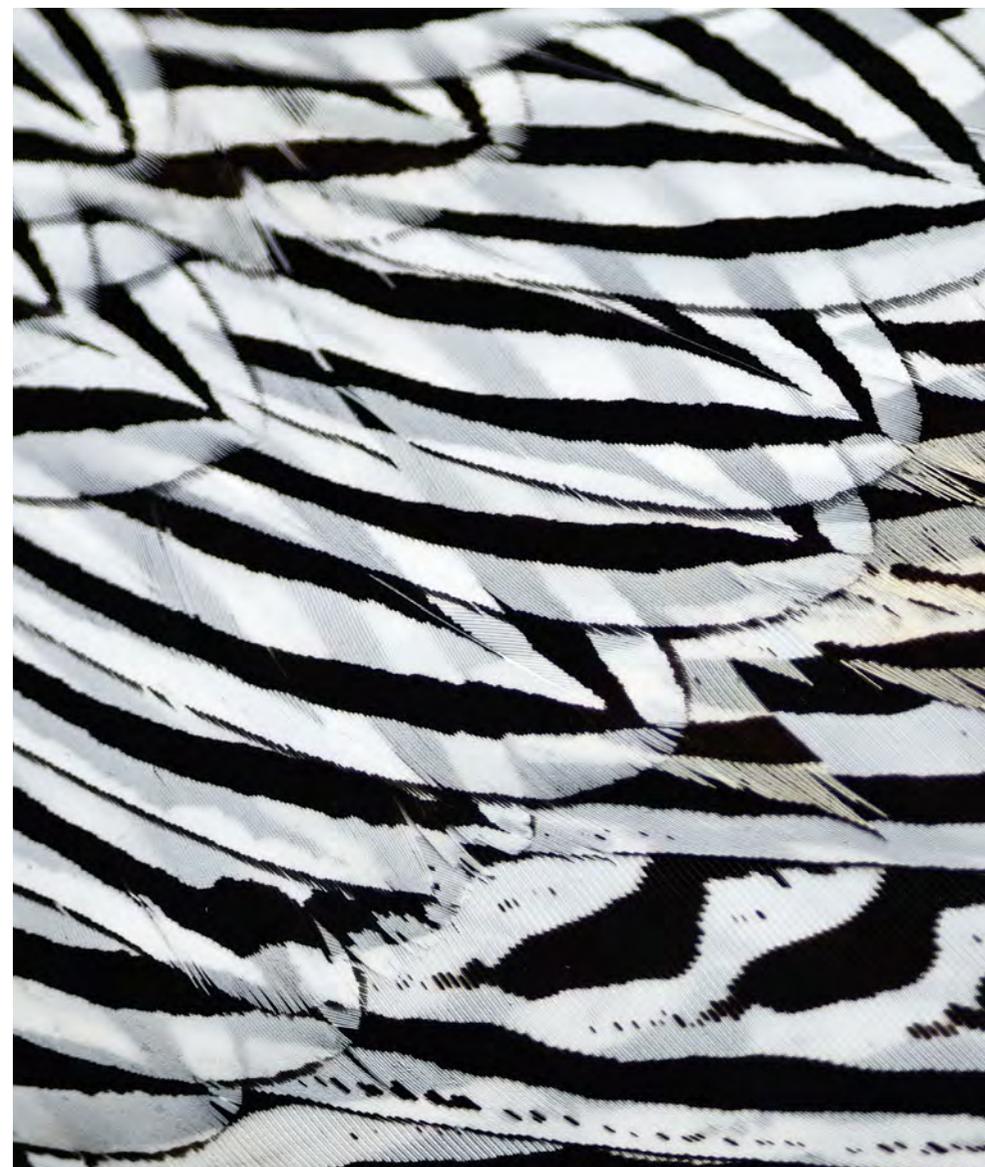
Irrecoverable VAT expenses include the VAT charges that the DfT are unable to reclaim. During 2013 the procedure the DfT had for dealing with VAT only invoices changed, such that they were no longer in a position to claim back the VAT charges on certain categories of administration expense. As a result, the irrecoverable VAT charges were being met by the Scheme.

The Trustee has made a claim to recover this VAT from HMRC on behalf of the Scheme. HMRC withdrew their objection to the claim in November 2019 and agreement of the amount repayable was reached in December 2019. The Scheme will be reimbursed with the amount recovered, net of the Scheme's share of the costs incurred in recovering this VAT, this is estimated at £5m.

	2019 £m	2018 £m
Pensions administration	(10)	(10)
Actuarial fees	(4)	(2)
Legal fees	(3)	(2)
Trustee governance	(2)	(3)
Communications	(1)	(1)
Other professional fees	-	(1)
Irrecoverable VAT	5	-
	<b>(15)</b>	<b>(19)</b>

## Silver pheasant

The silver pheasant inhabits mountainous forests throughout China, Burma, Cambodia, Laos, Thailand and Vietnam.



## 6. Investments

### (a) Value of investments

DB Section	Value at 31 December 2018 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2019 £m
<b>Pooled funds</b>					
Growth	15,938	25	(427)	2,858	18,394
Private Equity	2,257	-	(421)	292	2,128
Illiquid Growth	967	406	-	57	1,430
Government Bond	1,330	13	(93)	23	1,273
Passive Equity	803	2	(13)	204	996
Long Term Income	588	85	-	49	722
Short Duration Index Linked Bond	698	16	(39)	9	684
Global Equity	623	-	(77)	125	671
Non Government Bond	404	-	(26)	47	425
Infrastructure	421	-	(46)	17	392
Long Duration Index Linked Bond	166	6	(28)	12	156
Cash	183	5	(146)	1	43
	<b>24,378</b>	<b>558</b>	<b>(1,316)</b>	<b>3,694</b>	<b>27,314</b>
<b>Directly held securities</b>					
BRASS and other AVCs	1,440	176	(217)	189	1,588
Substitution orders	754	8	-	27	789
Annuities	36	14	(2)	-	48
	<b>26,608</b>	<b>756</b>	<b>(1,535)</b>	<b>3,910</b>	<b>29,739</b>
Cash and other assets	48				33
	<b>26,656</b>				<b>29,772</b>
<b>DC Section</b>					
DC Section	Value at 31 December 2018 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2019 £m
DC Pooled Fund	94	31	(9)	20	136
Cash and other assets	2				2
	<b>96</b>				<b>138</b>

BRASS investments include 128,663,634 units in the PAF (2018: 144,317,243 units). Further information on the PAF can be found on page 49.

Income from pooled fund investments is capitalised within the price of the pooled fund units and, therefore, reflected within the fair values of investments. Although income is not distributed, the pooled fund regulations allow the Scheme to extract its share of pooled fund income at no cost, by selling units at zero spread. The income withdrawn from the pooled funds in this way can then be used to pay benefits. The DC Pooled Fund is all allocated to members.

Investment administration includes the cost of selecting and monitoring the investment managers and custodians and the preparation of pooled fund accounts. These activities are carried out by RPMI and RPMI Railpen.

Further analysis of investments, charges and fees for each pooled fund is provided in the pooled fund accounts in Appendix I. The percentages of the pooled fund assets that relate to RPS investments are shown in the table on the next page.

	% of pooled fund owned by the RPS 31 December 2019	% of pooled fund owned by the RPS 31 December 2018
<b>Pooled Funds</b>		
Passive Equity	100.0	100.0
Non Government Bond	100.0	100.0
Private Equity	95.8	95.9
Infrastructure	95.3	95.3
Growth	94.7	94.6
Global Equity	93.9	94.0
Illiquid Growth	93.2	92.1
Government Bond	91.3	91.4
Long Duration Index Linked Bond	88.8	89.0
Long Term Income	88.6	88.3
Short Duration Index Linked Bond	88.4	88.1
Cash	84.7	94.2

**(b) Investment risks**

The total value of the pooled funds used in the percentage calculations only include Scheme investments in the pooled funds and so exclude cross-held investments owned by the Growth and DC pooled funds.

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is held within financial institutions which are at least investment grade credit rated.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee through regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out in Appendix I.

**(c) Investments fair value hierarchy**

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

- Level 1:** The unadjusted quoted price in an active market for identical assets and liabilities that the entity can access at the measurement date.
- Level 2:** Inputs other than the quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3:** Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability).

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

Further information on the Trustee's approach to Investment risk is set out in Appendix I, note 1.16.

The Scheme's investment assets and liabilities fall within hierarchy categories as follows:

DB Sections as at 31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Pooled funds</b>				
Growth	-	18,394	-	18,394
Private Equity	-	-	2,128	2,128
Illiquid Growth	-	-	1,430	1,430
Government Bond	-	1,273	-	1,273
Passive Equity	-	-	996	996
Long Term Income	-	-	722	722
Short Duration Index Linked Bond	-	684	-	684
Global Equity	-	671	-	671
Non Government Bond	-	425	-	425
Infrastructure	-	-	392	392
Long Duration Index Linked Bond	-	156	-	156
Cash	-	43	-	43
	-	<b>21,646</b>	<b>5,668</b>	<b>27,314</b>
BRASS and other AVCs	-	1,588	-	1,588
Substitution orders	-	-	789	789
Annuities	-	48	-	48
Cash and other assets	33	-	-	33
	<b>33</b>	<b>23,282</b>	<b>6,457</b>	<b>29,772</b>

DC Sections as at 31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
DC Pooled Fund	-	136	-	136
Cash and other assets	2	-	-	2
	<b>2</b>	<b>136</b>	<b>-</b>	<b>138</b>

DB Sections as at 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Pooled funds</b>				
Growth	-	15,938	-	15,938
Private Equity	-	-	2,257	2,257
Government Bond	-	1,330	-	1,330
Illiquid Growth	-	-	967	967
Passive Equity	-	803	-	803
Short Duration Index Linked Bond	-	698	-	698
Global Equity	-	623	-	623
Long Term Income	-	-	588	588
Infrastructure	-	-	421	421
Non Government Bond	-	404	-	404
Cash Fund	-	183	-	183
Long Duration Index Linked Bond	-	166	-	166
	-	<b>20,145</b>	<b>4,233</b>	<b>24,378</b>
BRASS and other AVCs	-	1,440	-	1,440
Substitution orders	-	-	754	754
Annuities	-	36	-	36
Cash and other assets	48	-	-	48
	<b>48</b>	<b>21,621</b>	<b>4,987</b>	<b>26,656</b>

DC Sections as at 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
DC Pooled Fund	-	94	-	94
Cash and other assets	2	-	-	2
	<b>2</b>	<b>94</b>	<b>-</b>	<b>96</b>

The above analysis has been performed by reference to the legal nature of the pooled funds invested in (i.e. unauthorised, unquoted unit trusts) and not by reference to the underlying investments in the pooled funds. Details of the underlying pooled funds' assets and liabilities are provided in Appendix I.

## 7. Current assets

	2019 £m	2018 £m
Contributions due from employers	31	26
PPF levies	13	8
VAT refund due from HMRC	5	-
	<b>49</b>	<b>34</b>

At the year end £1,684,000 (2018: £584,000) of contributions on the schedules of contributions were not paid by their due date. Of this amount, £1,351,000 (2018: £203,000) has since been paid and £297,000 (2018: £381,000) remains outstanding as at the date of signing these financial statements.

## 8. Current liabilities

	2019 £m	2018 £m
Administration expenses	(2)	(2)
Benefits payable	(12)	(8)
Taxation and social security	(7)	(8)
Assets payable to the PPF	(46)	(28)
	<b>(67)</b>	<b>(46)</b>

## 9. Related party transactions

The Trustee and its subsidiaries, RPMI and RPMI Railpen, provide services to the Scheme (explained on pages 28 to 32). The charges payable, and those of external service providers, are detailed in note 5 on page 15. At 31 December 2019, administration expenses within current liabilities included a liability of £2.1m in respect of these charges (2018: a liability of £2.4m).

At 31 December 2019, twelve directors of the Trustee were members of the Scheme. Three of these directors were also Non-Executive Directors of RPMI and one director was also a Non-Executive Director of RPMI Railpen. One Executive Director of RPMI was also a member of the Scheme. Contributions received in respect of Trustee Directors who are members of the Scheme have been made in accordance with the Pension Trust Deed and Rules. All directors receive benefits on the same basis as other members of the Scheme. Certain directors of the Trustee and its subsidiaries receive remuneration, which is disclosed in the financial statements of those companies. The Scheme bears its share of this remuneration through recharges. The total remuneration received by directors in the year was £406,413 (2018: £445,106).

## 10. Employer-related investments

As at 31 December 2019, investments in employers amounted to no greater than 5% of the assets of the Scheme, and, for any single section, the investment in its sponsoring company was not greater than 5% of the assets of the section.

Investment securities issued by HM Government are excluded from the definition of employer-related investments for the purposes of these audited financial statements.

## 11. Net assets at the end of the year

The net assets of each section of the Scheme at 31 December 2019 are shown below:

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
<b>Shared Cost Arrangement</b>			
1994 Pensioners*	The Secretary of State for Transport	93,407	3,293
Abellio	Abellio Transport Holdings Ltd	53	11
Abellio Scotrail	Abellio ScotRail Ltd	9,431	885
AECOM	AECOM Infrastructure & Environment UK Limited	215	53
Alpha Trains	Alpha Trains (UK) Limited	26	9
ALSTOM Railways	ALSTOM Transport UK Limited	2,256	195
ALSTOM Signalling	ALSTOM Transport UK Limited	83	28
AMCO	Amalgamated Construction Ltd	17	2
Amey Rail	Amey Services Limited	2,374	230
Angel Trains	Angel Trains Limited	237	69
Anglia Railways	Abellio East Anglia Limited	1,019	131
Atkins	Atkins Limited	842	257
ATOC Limited	ATOC Limited	725	70
Atos	<b>ATOS IT Services UK Limited</b> Atos UK International IT Services Limited	1,091	227
Babcock Rail Ltd	Babcock Rail Limited	2,265	271
Balfour Beatty	Balfour Beatty Group Employment Limited	3,062	353
BAM Nuttall	BAM Nuttall Limited	10	2
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	363	53
Bombardier Transportation C2C	Bombardier Transportation UK Ltd	163	12

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
Bombardier Transportation UK	Bombardier Transportation UK Ltd	1,156	133
BR*	<b>The Secretary of State for Transport</b> BRB (Residuary) Limited Channel Tunnel Rail Link Limited London & Continental Railways Limited London Underground Limited Scottish Ministers	906	152
British Transport Police	British Transport Police Authority	5,183	192
BT	<b>British Telecommunications PLC</b> Openreach Limited	313	19
BUPA Occupational Health	Occupational Health Care Limited	96	12
Carlisle Cleaning Services	Carlisle Cleaning Services Limited	59	3
Carillion Rail (Centrac)*****		-	1
Carillion Rail (GTRM)*****		-	5
Chiltern Railway Company Limited (Maintenance)	The Chiltern Railway Company Limited	305	30
Clientlogic	Clientlogic (UK) Limited	63	5
Colas Rail	Colas Rail Limited	2,178	202
Crossrail	Crossrail Limited	964	82
CSC Computer Sciences	CSC Computer Sciences Limited	11	2
DB Cargo (UK) Ltd	<b>DB Cargo (UK) Limited</b> DB Cargo Services Limited DB Cargo (UK) Holdings Limited Engineering Support Group Limited DB Cargo International Limited	10,464	1,318
East Coast Main Line	London North Eastern Railway Limited	8,888	665
East Midlands	East Midlands Trains Limited	5,048	448
Eurostar	Eurostar International Limited	4,679	500

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
Eversholt Rail Limited	Eversholt Rail (UK) Limited	114	45
First Great Western	First Greater Western Limited	13,993	1,148
Freightliner	<b>Freightliner Limited</b> Freightliner Heavy Haul Limited Freightliner Maintenance Limited Management Consortium Bid Limited	4,056	463
GB Railfreight	GB Railfreight Limited	367	63
Gemini Rail Services	Gemini Rail Services UK Ltd	66	2
Global Crossing	Century Link Communications UK Limited	228	50
Govia Thameslink Railway (Southern & Gatwick Express)	Govia Thameslink Railway Limited	11,100	816
Govia Thameslink Railway	Govia Thameslink Railway Limited	7,156	529
Great Eastern Railway	Abellio East Anglia Limited	2,260	269
HS1	HS1 Limited	34	10
Hitachi Rail Europe	Hitachi Rail Limited	479	23
Hull Trains	Hull Trains Company Limited	110	11
Intelenet Global BPO (UK) Limited	Intelenet Global BPO (UK) Limited**	6	-
Island Line	First MTR South Western Trains Limited	95	10
ISS Transport Services	ISS Facility Services Limited	209	8
Jacobs UK	Jacobs UK Limited	234	54
Keolis Amey Operations/ Gweithrediadau Keolis Amey	Keolis Amey Wales Cymru Limited	4,413	435
London & South Eastern Railway Limited	London & South Eastern Railway Limited	10,420	923
London and North Western Railway	London and North Western Railway Company Limited	66	21

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
London Eastern Railway (West Anglia)	Abellio East Anglia Limited	1,024	127
London Overground	Arriva Rail London Limited	2,400	212
London Underground	London Underground Limited	45	2
Merseyrail	Merseyrail Electrics 2002 Limited	2,696	237
MITIE Facilities Services	MITIE Limited	40	1
Mouchel Parkman Rail Limited	Kier Rail Limited	5	1
MTR Elizabeth Line	MTR Corporation (Crossrail) Limited	893	73
National Express Services Limited	National Express Services Limited**	140	3
Network Rail	Network Rail Infrastructure Limited	49,111	7,755
New Cross Country	XC Trains Limited	4,594	492
Northern (ex North East)	Northern Trains Limited	6,417	636
Northern (ex North West)	Northern Trains Limited	6,084	545
Omnibus*****	2E2 UK Ltd	751	122
	Aggregate Industries UK Ltd		
	Belmond (UK) Limited		
	Bombardier Transportation UK Ltd		
	CapGemini UK plc		
	Carnforth Railway Restoration and Engineering Services Limited		
	Cats Solutions Ltd		
	Churchill Contracts Services Ltd		
	Colas Rail Limited		
	Computacenter (UK) Ltd		
	CSC Computer Sciences Limited		
	Daisy IT Services Limited		
	DHL Services Limited		

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
	EB Central Services Ltd		
	Forth and Oban Limited		
	Harsco Rail Limited		
	Integral Ltd		
	Interserve (FM) Ltd		
	Interserve FS (UK) Limited		
	Keolis (UK) Limited		
	Loram UK Ltd		
	Lorne Stewart Plc		
	Manpower UK Limited		
	MITIE Cleaning & Environmental Services Limited		
	MITIE Technical Facilities Management Limited		
	NG Bailey Facilities Maintenance Limited		
	O2 Unify Limited		
	Rail Management Services Limited		
	Rail Operations (UK) Limited		
	Servest Group Limited		
	Signet Solutions Limited		
	Sodexo Limited		
	Stagecoach Supertram Maintenance Ltd		
	Telent Technology Services Limited		
	TeleTech UK Ltd		
	Voestalpine VAE UK Ltd		
	VolkerRail Specialist Businesses Limited		
	Vossloh Cogifer UK Limited		
	Weedfree Limited		
	Wetton Cleaning Services		

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
Owen Williams Railways	Amey Services Limited	367	76
Porterbrook	<b>Porterbrook Leasing Company Limited</b> Porterbrook Maintenance Limited	183	50
Qjump	Qjump Limited	125	5
Rail Gourmet UK Limited	<b>Rail Gourmet UK Limited</b> Rail Gourmet International Limited	416	35
Resonate Group (Link)	Resonate Group Limited	197	36
Resonate Group (Rail)	Resonate Group Limited	267	79
Resonate Group (TCI)	Resonate Group Limited	123	30
RPMI	RPMI Limited	897	94
RSSB	Rail Safety and Standards Board Limited	656	108
Serco	SERCO Limited	533	71
Serco Caledonian Sleepers	Serco Caledonian Sleepers Limited	169	9
Siemens	Siemens Mobility Limited	89	14
SNC-Lavalin Rail & Transit Limited	SNC-Lavalin Rail & Transit Limited	327	63
Socotec UK Limited	<b>Socotec UK Limited</b> Socotec Asbestos Limited	293	32
South Western Railway	First MTR South Western Trains Limited	12,732	1,053
Specialist Computer Centres	Specialist Computer Centres PLC	30	4
Stadler Rail	Stadler Rail Service UK Limited	167	6
Swirl Service Group****	ISS Facility Services Limited	8	-
Thales Information Systems	Thales UK Limited	22	6
Thales Transport and Security	<b>Thales Transport and Security Limited</b> Thales UK Limited Thales Ground Transportation Systems UK Limited	1,908	324
The Chiltern Railway Company Limited	The Chiltern Railway Company Limited	1,605	176

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
The QSS Group Limited	<b>The QSS Group Limited</b> RIQC Limited	73	11
Torrent Trackage Limited	Torrent Trackage Limited	10	1
TransPennine Express (Former Arriva Trains Northern)	First Transpennine Express Limited	1,182	130
TransPennine Express (Former North Western Trains)	First Transpennine Express Limited	831	71
Trenitalia c2c Limited	Trenitalia c2c Limited	1,850	138
TSP Projects	TSP Projects Limited	545	58
Unipart Rail - NRS	Unipart Rail Limited	596	73
Unipart Rail - Railpart	Unipart Rail Limited	342	58
Unisys	Unisys Limited	30	4
UPS	UPS Limited	338	46
Voith	Leadec Limited	21	2
Voyages-sncf UK Limited	Voyages-sncf UK Limited	38	14
Wabtec Rail Limited	Wabtec Rail Limited	10	2
West Coast Partnership	First Trenitalia West Coast Rail Limited	8,713	821
West Coast Traincare	ALSTOM Transport UK Limited	1,009	150
Westinghouse Rail Systems	Siemens Mobility Limited	883	249
West Midlands Trains	West Midlands Trains Limited	6,821	600
Worldline IT Services UK Limited	Worldline IT Services UK Limited	161	66
Wrexham, Shropshire & Marylebone Railway Company	Wrexham, Shropshire & Marylebone Railway Company Limited**	27	1
<b>Shared Cost Arrangement Total</b>		<b>332,152</b>	<b>29,772</b>

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
<b>Industry-Wide Defined Contribution Section</b>			
	Abellio East Anglia Limited	9,476	138
	Arriva Rail North Limited		
	Babcock Rail Limited		
	c2c Rail Limited		
	Colas Rail Limited		
	East Midlands Trains Limited		
	Eversholt Rail (UK) Limited		
	First Greater Western Limited		
	First MTR South Western Trains Limited		
	First Transpennine Express Limited		
	Freightliner Limited		
	GB Railfreight Limited		
	Global Travel Ventures Limited **		
	Govia Thameslink Railway Limited		
	Hull Trains Company Limited		
	London North Eastern Railways Limited		
	MTR Corporation (Crossrail) Limited		
	Pentalver Transport Limited		
	Porterbrook Leasing Company Limited		
	Rail Gourmet UK Limited		
	Rail Safety and Standards Board Limited		
	RPMI Limited		
	Swietelsky Construction Company Ltd		
	Tedipay (UK) Limited **		
	The Chiltern Railway Company Limited		
	Tram Operations Limited		
	TSP Projects Limited		
	Unipart Rail Limited		

Section	Employer	Total membership as at 31 December 2019	Net assets as at 31 December 2019 £m
	VolkerRail Limited		
	Wales and West Passenger Trains Limited		
	West Anglia Great Northern Railway Limited		
	XC Trains Limited		
	<b>Total</b>	<b>341,628</b>	<b>29,910</b>

For those sections that have more than one participating employer, the designated employer is shown in **bold**.

- \* Denotes sections with a Crown Guarantee.
- \*\* Denotes employers that were in administration or no longer trading as at 31 December 2019.
- \*\*\* Denotes employers that were in administration as at 31 December 2019 and sections that are currently in a PPF assessment period.
- \*\*\*\* Denotes sections with assets less than £0.5m.
- \*\*\*\*\* List only includes Omnibus employers with active membership.
- \*\*\*\*\* Carillion BRASS assets invested at 31 December 2019

## 12. Contingent liabilities

In 2019 the Trustee began a significant project to make sure that the Scheme equalised its GMP benefits following the October 2018 High Court ruling that the Lloyds Banking Group Pension Schemes must equalise benefits in this area. An early part of this project is to assess the materiality of the requirement for Scheme funding. The Trustee's professional advisers have confirmed that that the required increase in pension obligations is not material to the overall Scheme funding position. The Trustee remains in some of the earlier stages of assessing the impact on the RPS and the practical implementation of equalisation, it is likely to be some time before this is complete.

## 13. Subsequent events - COVID-19 impact

In late 2019, the existence of a new coronavirus, now known as COVID-19, was confirmed and since this time COVID-19 has spread across the world causing disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. As discussed in the Trustees' report above, the directors do not believe this impacts the Scheme's ability to continue as a going concern. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the Scheme or to provide a quantitative estimate of this impact. The directors consider that the impact of COVID-19 would not affect the ability of the Scheme to generate value in the long-term, or impact its business plan such as to have a material impact on any of the balances in these financial statements.

# Statement of Trustee responsibilities

...in relation to Audited Financial Statements



## Silverbird

The silverbird is a flycatcher native to Eastern Africa and has a silvery grey coat with a tawny orange breast.

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## Statement of Trustee responsibilities in relation to Audited Financial Statements

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The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension Scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- (i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- (ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and

- making available each year, commonly in the form of a Trustee annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

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### Approval of the accounts

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The financial statements have been prepared and audited in accordance with regulations made under Sections 41 (1) and (6) of the Pensions Act 1995. The directors of the Trustee Company approved this report on 19 May 2020.



## Silver nugget

Silver is one of the so-called precious metals because of its comparative scarcity. Most silver is derived as a by-product from ores and native silver is rarely found as nuggets.

# The Trustee Company Annual Report



## Silver Cloud

The Rolls-Royce Silver Cloud is a luxury automobile produced by Rolls-Royce Limited from April 1955 to March 1966.

### Railways Pension Trustee Company Limited

The Trustee is the trustee of four railway industry pension schemes. Two of these schemes are open to new members: the RPS and the British Transport Police Force Superannuation Fund. All the pension schemes participate in the pooled fund structure.

Trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee as a corporate trustee. The Trustee has overall fiduciary responsibility for the effective operation of the schemes, including administration of benefits, collection of contributions, payment of pensions and the investment and safe custody of assets. It must act fairly in the interests of active members, preserved members, pensioners and employers.

### Pension schemes for which the Trustee is the trustee

Membership statistics at 31 December

	2019 No.	2018 No.
Railways Pension Scheme	341,628	344,095
British Transport Police Force Superannuation Fund	7,062	6,982
British Railways Superannuation Fund	2,172	2,384
BR (1974) Fund	1,223	1,406
	<b>352,085</b>	<b>354,867</b>

### Railtrust Holdings Limited (RHL)

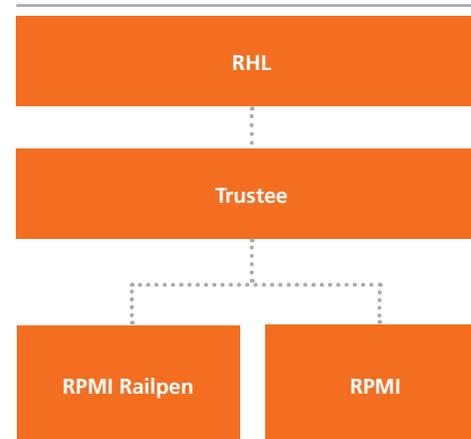
The Trustee is owned by RHL, a company limited by guarantee. Designated employers of sections in the RPS, Omnibus employers in the RPS, Industry-Wide DC employers in the RPS and the principal employers of the other schemes of which the Trustee is a trustee are all encouraged to become a member of RHL. The company is owned equally by its guarantor members, irrespective of size. Each member of RHL is committed to contribute a maximum of £1 to its liabilities if it is wound up.

The primary purpose of RHL is to provide governance controls and appoint the directors of the Trustee. The Articles of Association set out the procedure for the appointment of directors. The aim is to achieve a balanced representation of the different employers and the members (or their representatives) of the schemes. The directors of RHL and the Trustee are the same.

There are 16 directors in total, eight elected by the members of RHL ('employer directors') and eight on behalf of the members of the railways pension schemes ('employee directors'). Six of the employee directors are nominated on behalf of the employee members and two on behalf of the pensioner members (including preserved members). Roughly a third of the directors retire by rotation every two years. The term of office is six years.

Trustee Directors are non-executive and are entitled to emoluments which are disclosed in the financial statements of RHL.

### The structure of the Trustee group as at 31 December 2019



### Operating Companies

The Trustee has two wholly-owned operating subsidiaries, RPMI and RPMI Railpen, to which it delegates the day-to-day operation of the railway pension schemes. Investment management of Scheme assets is carried out by RPMI Railpen, which is regulated by the FCA. All other activities are carried out by RPMI.

A brief description of the governance arrangements for each of the two operating subsidiaries and their activities during 2019 are set out, as follows:

### RPMI

RPMI employs around 450 staff across three offices in Coventry, Darlington and London.

RPMI carries out activities on behalf of the Trustee including:

- Administration and payment of pensions;
- Advisory and support services for the Trustee Board, its committees and Pensions and Management Committees;
- Commission and oversight of the work of external advisors such as actuaries and lawyers;
- Preparation of and maintenance of accounts for schemes, pooled funds and sections; and
- Arrangement of safe custody of assets.

RPMI also supplies personnel and infrastructure to RPMI Railpen to enable it to manage the Scheme's assets.

## RPMI Board

RPMI's activities are overseen by the RPMI Board, whose membership in 2019 was as follows.

	Name	Position
	Babloo Ramamurthy (Chair)	Independent Director
	Stuart Blackett <sup>1</sup>	Chief Financial Officer
	John Chilman <sup>2</sup>	Chief Executive
	Julian Cripps <sup>3</sup>	Managing Director, Investments
	David Gott	Trustee Director
	Christopher Hannon	Trustee Director
	Richard Jones	Trustee Director
	David Maddison <sup>4</sup>	Managing Director, Scheme
	Michelle Ostermann <sup>5</sup>	Managing Director, Investments
	Paul Sturgess	Managing Director, Benefits
	Gary Towse	Trustee Director
	Philip Willcock <sup>6</sup>	Chief Executive

1. Stuart Blackett was appointed to the Board on 4 September 2019
2. John Chilman was appointed to the Board on 10 June 2019
3. Julian Cripps resigned from the Board on 30 June 2019
4. David Maddison resigned from the Board on 30 June 2019
5. Michelle Ostermann was appointed to the Board on 4 September 2019
6. Philip Willcock resigned from the Board on 28 February 2019

The RPMI Board has two formal sub-committees; a Mutual Committee, which oversees the correct allocation of costs, revenues and distributions between Trustee business and non-Trustee business; and a Remuneration Committee, which oversees pay and reward issues in RPMI and sets pay for Executive Directors and senior officers.

## RPMI activities

Project Chrysalis ('Chrysalis') remained the most significant strategic project for the RPMI Board during the year and technical go live was achieved on 8 March 2019. There has been a phased programme of transferring active and preserved members onto the new system from that date. Chrysalis is a project to replace the pensions administration system RPMI uses for the railways pension schemes and modernise the way it delivers its services through multi-channel distribution.

Significant RPMI resources have been required to manage Chrysalis in recent years. The project has not been without its challenges. Whilst such challenges are not uncommon in large IT projects, the RPMI Board was far from complacent, taking a keen interest in progress and holding officers and suppliers to account. It is our expectation that the final migration of members will complete in 2020. Despite the challenges of the programme, the RPMI Board focus has also been spent ensuring that regular business activities continued to be concluded satisfactorily. In respect of these activities, service standards were maintained and RPMI's financial performance was marginally below target for the year, essentially allowing for investment to be made in our IT Infrastructure and People team functions.

The RPMI Board continued to increase the resource it supplied to RPMI Railpen during the year in order to facilitate selective in-sourcing of investment management, saving overall costs for the Trustee. For more information, see under the 'Activity of RPMI Railpen' heading.

## Remuneration Policy and RPMI employee disclosures

### Delivering value for members and employers

Our mission is to pay members' pensions securely, affordably and sustainably and we therefore have a responsibility to ensure that money and resources used running the Scheme are done so in an efficient manner.

As set out above, RPMI carries out activities on behalf of the Trustee and supplies personnel and infrastructure to RPMI Railpen to enable it to manage the Scheme's assets. The costs of RPMI employees working on administration activities are charged to the Scheme through a per capita charge and are therefore included within note 5 of the financial statements. Costs associated with employees engaged in investment activities are charged to the pooled funds and are shown within note 1.4 of Appendix I. The total cost associated with employees provided by RPMI during the year ended 31 December 2019 was £32.4m (2018: £30.3m), an increase of 7%.

All costs, both direct and indirect, are monitored by RPMI executive management and the Trustee Board. As part of this focus on costs and performance, a large proportion of investment management has been brought in-house resulting in significant savings in external investment management fees. Internal costs, including staff costs, have increased over this period as we built up head count and capability to ensure RPMI is well placed to attract, retain and motivate high quality talent capable of delivering investment

performance on internalised assets. However, total costs charged to the pooled funds, including performance fees and all staff related costs, have reduced from 1.7% of pooled fund assets in 2011 to 0.95% in 2019 (2018: 0.98%).

### Remuneration policy

Our remuneration framework is designed to ensure RPMI attracts, retains and motivates high quality talent with the skills and expertise to deliver the long-term goals of the Scheme and value for money for members. Our remuneration policy includes the following key elements:

- Base salary, which is benchmarked annually.
- Annual bonuses, aimed at motivating and rewarding top performance. Where bonuses exceed a £40,000 threshold, payment is partially deferred for up to three years. This is designed to incentivise delivery of Scheme performance over the long-term and to encourage retention of key personnel.
- Trustee Board directors and other non-executives receive only the agreed remuneration for their services.

The Remuneration Committee, a formal sub-committee of the RPMI Board provides oversight of pay and reward matters in RPMI and sets pay for senior directors and officers.

### Benchmarking of base salary and/or total compensation

We recognise the importance of attracting and retaining high-calibre employees in a competitive market, we offer fair and competitive salaries to attract good quality people who want to work at RPMI and who appreciate the values of working for a world class pension scheme.

### Bonus payments

There are three elements to the bonus scheme: Group wide, personal and business elements.

- All staff are eligible to participate in the Group wide bonus scheme. The percentage payable is determined by delivery against five group wide Key Performance Indicators ('KPIs') and can be up to 5% of base salary. The bonus is payable to all employees, subject to satisfactory personal performance, in service in April following the year the bonus is earned.
- Some employees are also eligible to receive a Personal bonus which is based on individual performance ratings. The target for this ranges from 5% to 45% of base salary and, depending upon individual performance, can pay out between 0% and 200% of target.
- Higher earners and key management personnel are also eligible to receive a business element bonus. For investment professionals, this is based on the investment performance on the pooled funds relative to comparator portfolios and for other staff is based on achievement of relevant business performance against KPI targets. The target for this bonus element ranges from 5% to 90% of base salary and can pay out between 0% and 300% of target.

Any bonuses in excess of £40k are partially deferred. £40k, plus one third of the excess is paid in the April following the year it was earned subject to the employee being in service. The remaining two thirds is notionally invested, 90% in the Growth Pooled Fund, 10% in the Illiquid Growth Pooled Fund for three years before being paid out, subject to the employee still being in service. This is designed to incentivise delivery of Scheme performance over the long-term and to encourage retention of key personnel.

### Remuneration in 2019/18

We remain committed to openly reporting the total remuneration of the Trustee Board directors, key management personnel and highly paid employees (who are typically the investment managers). Our remuneration disclosure goes significantly beyond what legislation requires and reflects our commitment to transparency. The table below shows total remuneration (base salary plus bonuses plus pension benefits) of 'high earners' (employees earning >£150,000 total remuneration), including key management personnel. The annual and deferred bonus amounts included below reflect that the RPS did not meet its investment performance targets on a rolling three year basis in the compensation reference period of both the calendar years.

Range	2019	2018
	Number	Number
£600,000 - £650,000	1	-
£550,000 - £600,000	-	2
£500,000 - £550,000	2	-
£450,000 - £500,000	1	1
£400,000 - £450,000	2	1
£350,000 - £400,000	1	2
£300,000 - £350,000	7	5
£250,000 - £300,000	4	4
£200,000 - £250,000	8	9
£150,000 - £200,000	5	6
<b>Total</b>	<b>31</b>	<b>30</b>

The table on the previous page includes the remuneration expense charged to the Scheme in respect of base salary, bonuses and pension benefits. This cost includes a significant proportion of annual bonuses which are deferred for up to three years. These deferred bonuses are allocated by individual and revalued annually until paid. Estimates of future investment performance and eligible staff turnover are used in the calculation. The direct costs associated with employing a team of highly skilled investment professionals in a very competitive financial services market are much lower than the embedded fees that would otherwise be charged by external managers.

The table below shows the total combined remuneration of the high earners shown above, and key management personnel. It reconciles amounts earned during the financial year to amounts paid (including taxable benefits received) during the year.

Remuneration for the Year Ended 31/12/19	High earners £m	Executive Directors £m	Trustee Directors £m	Total key management personnel £m
Salary & Benefits	4.3	1.5	0.4	6.2
Annual bonus	1.5	0.6	-	2.1
Deferred bonus	1.1	0.4	-	1.5
<b>Total compensation earned in 2019</b>	<b>6.9</b>	<b>2.5</b>	<b>0.4</b>	<b>9.8</b>
<b>Less:</b>				
Annual bonus earned in the year deferred until 2023	(1.1)	(0.4)	-	(1.5)
<b>Add:</b>				
Annual incentives from 2016 paid in the year	1.7	0.3	-	2.0
<b>Total compensation paid in 2019</b>	<b>7.5</b>	<b>2.4</b>	<b>0.4</b>	<b>10.3</b>

#### Deferred awards

A notional amount is awarded in respect of deferred incentives and amounts eventually payable depend on the performance and service conditions explained earlier in this report. Twenty five deferred awards were made in the current year with a notional value of £1.5m, of which four related to Executive Directors with a notional value of £0.4m.

## RPMI Railpen

RPMI Railpen is authorised by the FCA to carry out investment management and related activities on behalf of its client, the Trustee. An Investment Management Agreement between the Trustee and RPMI Railpen sets out the terms of the Trustee's delegation to RPMI Railpen.

RPMI Railpen does not employ its own staff. Rather, staff and other resources are procured from RPMI. RPMI Railpen's access to these resources is set out in secondment letters for key individuals and in a service agreement between the two companies.

During 2019, the membership of Railpen Investments Board was as follows:

	Name	Position
	Paul Trickett (Chair)	Non-Executive Director
	Carl Bang <sup>1</sup>	Non-Executive Director
	John Chilman <sup>2</sup>	Chief Executive
	Meliha Duymaz Oludipe	Trustee Director
	Johanna Kyrklund <sup>3</sup>	Non-Executive Director
	John Mayfield <sup>4</sup>	Trustee Director
	Karl Sternberg <sup>5</sup>	Non-Executive Director
	Philip Willcock <sup>6</sup>	Chief Executive

1. Carl Bang was appointed to the Board on 12 February 2019
2. John Chilman was appointed to the Board on 14 June 2019
3. Johanna Kyrklund was appointed to the Board on 7 March 2019
4. John Mayfield resigned from the Board on 31 March 2020
5. Karl Sternberg resigned from the Board on 31 December 2019
6. Philip Willcock resigned from the board on 28 February 2019

### Activity of RPMI Railpen

Under its Investment Management Agreement with the Trustee, RPMI Railpen is responsible for managing the investments of the pooled funds into which Scheme assets are grouped. The RIB is responsible to the Trustee Board for the investment performance of the pooled funds, with appropriate emphasis on achieving long-term objectives consistent with actuarial funding requirements. The Growth Pooled Fund, which represents approximately two-thirds of Scheme assets, has a long-term performance objective of achieving 4% per annum above the RPI. The level of risk taken within the Growth Pooled Fund is also checked against a passive Reference Portfolio (75% equities, 25% bonds). The RIB expects that, over time, the Growth Fund return needs to exceed that of the Reference Portfolio by around 1% per annum to achieve its long-term performance objective. Other pooled funds have performance objectives tailored to their roles in meeting the needs of stakeholders. Further details can be found in Appendix I.

The RIB approves strategic plans for each of the multi-asset pooled funds at the end of each year. These provide a road map for the direction of these portfolios over the coming year and the resources to be applied to them.

The RIB delegates the day-to-day management of the pooled funds to the executive team. The Chief Investment Officer is responsible for the investment of public market, private market and real assets in the pooled fund range. The Chief Fiduciary Officer is responsible for determining the high level investment strategy, needs and risk appetite of the Scheme. Both of these positions report to the Managing Director, Investment Business, who also oversees investment operational activities, investment communication, legal & compliance and reports to the Chief Executive.

### Employer director appointment procedure

The appointment procedure for employer directors is based on industry sub-sector constituencies. The nominating electoral groups and the number of directors to be appointed by each electoral group are set out in the table below:

Electoral Group	Number of Directors
Passenger train operating companies	3
Network Rail	2
Freight train operating companies and support service	2
All employers (including above)	1

The voting arrangements for the electoral groups reflect the schemes' membership, while giving the most emphasis to active members. If there are more nominations than vacancies, voting within the electoral

groups is on the basis of the number of employee members, preserved members and pensioners associated with each employer.

Each member of RHL has one vote for each active member and half a vote for each pensioner and preserved member in its schemes and sections. Voting in the 'All Employers' group is on the basis of one employer, one vote.

The chart, below, shows the current employer directors as at the end of December 2019, their date of retirement by rotation, and nominating constituency.

	Name	Nominating Constituency	Date of retirement by rotation
	Christopher Hannon (Chair from 19 March 2019) <sup>1</sup>	Freight train operating companies and support services	2022
	John Chilman (Chair until 19 March 2019) <sup>2</sup>	Passenger train operating companies	2024
	Meliha Duymaz Oludipe	Network Rail	2020
	Mark Engelbretson	Network Rail	2024
	John Hamilton	Passenger train operating companies	2020
	Richard Jones	All employers	2022
	Christine Kernoghan	Passenger train operating companies	2022
	Richard Murray <sup>3</sup>	Passenger train operating companies	2024
	John Wilson	Freight train operating companies and support services	2020

1. Christopher Hannon was appointed as Chair on 19 March 2019
2. John Chilman resigned as Chair and a Trustee Director on 19 March 2019
3. Richard Murray was appointed on 16 October 2019

### Employee director appointment procedure

Nominations for the six directors representing the employee members are sought from the railway trade unions, the British Transport Police Federation and Pensions and Management Committees. Other organisations the directors consider to be representative of the employees may also be included.

Nominations for the two directors representing the pensioner members (including preserved members) are sought from the British Transport Pensioners' Federation, the Retired Railway Officers' Society, the railway

trade unions and the British Transport Police Federation. Other organisations the directors consider to be representative of the employees may also be included.

In all cases, if there are more nominations than vacancies, a secret ballot is held of all active members or pensioners (including preserved members), as appropriate, in the railways pension schemes. The successful nominees will be those with the most votes.

The chart below shows the employee Trustee Directors during 2019, their date of retirement by rotation, and nominating organisation.

	Name	Nominating Constituency	Date of retirement by rotation
	Antony Cotgreave <sup>1</sup>	British Transport Pensioners' Federation	2020
	Gerard Doherty	Transport Salaried Staffs' Association	2024
	Richard Goldson <sup>4</sup>	RROS	2026
	David Gott	RMT and the Management Committee of the BRSF	2024
	Charles Harding	CSEU	2020
	Peter Holden <sup>2</sup>	British Transport Pensioners' Federation	2026
	Michael Lynch	RMT	2022
	John Mayfield <sup>3</sup>	RROS	2020
	Gary Towse	Management Committee of the BRSF and British Transport Police Federation	2022
	David Tyson	ASLEF	2022

1. Anthony Cotgreave resigned from the Board on 30 June 2019
2. Peter Holden was appointed to the Board on 25 September 2019
3. John Mayfield resigned from the Board on 31 March 2020
4. Richard Goldson was appointed to the Board on 21 April 2020

## Governance

The Trustee places great emphasis on maintaining high standards of fiduciary governance. Governance means having the people, structure and processes in place to provide the foundation for the efficient operation and effective decision making of the Trustee Board.

The experience and skills of Trustee Directors are the cornerstones of the Board's effective ways of working. Directors attended up to 24 Board and Committee meetings in 2019, in addition to various workshops,

strategy events, and training seminars. Attendance is reported to the Board and published on pages 39 to 42.

Directors have a comprehensive training programme on appointment and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes, as well as a programme of training and workshops designed to support the Board as a whole and facilitate effective succession planning based on the Board's Skills Matrix. All Trustee Directors must complete a minimum standard which meets the Pensions Regulator's requirements prior to appointment. A wide range of training is offered by external providers and RPMI, including TKU Training. Equally as important is training on the unique characteristics and complexity of the railways pension schemes. To further support Trustee Directors, information relevant to their role is easily accessible to them electronically in one convenient place, alongside all Board and Committee papers.

## Exposure of investments

RPS assets are invested in a number of pooled investment vehicles that operate as internal unit trusts. These offer the RPS the ability to invest in a wide range of investments including UK and foreign equities, bonds, hedge funds, private equity, property and infrastructure.

Each of these types of investments has its own risks associated with it, therefore the asset classes that the RPS is invested in are closely monitored to ensure that assets are not exposed to unnecessary risk as a result of investment choices. Further details of pooled fund investment exposures can be found within the consolidated pooled fund accounts in Appendix I.

## Pension Protection Fund

The PPF became operational on 6 April 2005 and impacts upon most defined benefit schemes in the UK which have to pay levies to the PPF. The PPF will pay compensation to members of eligible defined benefit schemes when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover PPF levels of compensation. Schemes or sections with a Crown Guarantee are ineligible to join the PPF and therefore do not pay the PPF levies.

## Insolvent employers

During January 2018, the PPF confirmed that the Carillion Rail (Centrac) and Carillion Rail (GTRM) sections of the RPS entered a PPF assessment period as a result of the insolvency of Carillion Construction Ltd, this assessment period ended on 3 December 2019.

In addition to the above companies, there are some other participating employers within the RPS that are no longer trading or who are in administration. Further details are given in Note 11 of the Audited Financial Statements.

## Silver disco ball

A disco ball is a roughly spherical object that reflects light directed at it in many directions, producing a complex display. Its surface consists of hundreds or thousands of mirrored facets.



## The Trustee Directors during 2019

In addition to formal meetings, Trustee Directors also attended several workshops, training events, and investment review meetings throughout the year.

### 1. Christopher Hannon (Chair of the Trustee from 19 March 2019, Chair of the Integrated Funding Committee until 11 June 2019)

Chris joined Freightliner Group Limited as their Pensions Director in September 2016, having served for the previous 12 years as Head of Pensions at Network Rail, where he was responsible for the management and operation of its defined benefit and defined contribution pension schemes. He has over 35 years of company pensions experience and has held management and trustee supporting roles with several private sector employers, including Safeway Supermarkets plc and Thomas Cook Group.

Chris was appointed a director of the Trustee Company following his nomination by Network Rail in 2005. He was re-elected in 2012 and then in 2016 was nominated on behalf of the Freight and Support Services Group. In January 2016 Chris was appointed as a Non-Executive Director of RPMI, and in 2019 he was appointed Chair of the Trustee, having previously chaired the Integrated Funding Committee.

### 2. John Chilman (Chair of the Trustee to 19 March 2019 when he resigned)

John was Group Head of Pensions at National Grid until June 2019, when he was appointed CEO of RPMI. A Chartered Accountant by qualification, he has worked for a number of large companies, including PricewaterhouseCoopers, South Western Electricity, Shell, HBOS and FirstGroup in pensions, financial and commercial roles. John has over 25 years of pensions experience and is an Independent Trustee of the Nestlé UK Pension Fund.

John was appointed as a director of the Trustee Company in 2007 and has been re-elected three times. In 2014 John was appointed as Chair of the Trustee, and was re-elected in 2018.

John resigned as Chair of the Trustee on 19 March 2019, following which he has been appointed as Chief Executive of RPMI on 10 June 2019.

### 3. Anthony Cotgreave (Chair of the Case Committee until he retired on 30 June 2019)

Anthony was employed in the railway industry for 39 years until retiring in 1990. He has been a member of the 1994 Pensioners Section Pensions Committee since 1997 representing the British Transport Pensioners Federation and the Retired Railway Officers Society. Tony was appointed as a Trustee Company Director in June 2005.

### 4. Gerard Doherty

Gerry is a pensioner in the 1994 Pensioners Section of the RPS, having worked for the Operations Department of the British Railways Board for over 15 years. Gerry then joined the full-time staff of the Transport Salaried Staffs' Association ('TSSA') as its Irish Secretary and after holding a number of positions he was elected as General Secretary in March 2004, serving in that position until taking retirement in November 2011.

Gerry served for a number of years on the General Council and the Executive Committee of the Trades Union Congress ('TUC') and was also a member of the Commission for Integrated Transport ('CfIT') until its demise in 2010. After he retired, Gerry was a director of South Central Youth ('SCY'), a charity devoted to deflecting young people from engaging in the gang culture prevalent in areas of south London.

Gerry was appointed as a director of the Trustee Company in 2018.

### 5. Meliha Duymaz Oludipe

Meliha has been the Regional Finance Director for Eastern Region since August 2019. She is responsible for the financial oversight of c.£15bn of investment over the next five years in Eastern Region which stretches from Scottish Borders along the entire east coast of England to London delivering 7,500 passenger services each day. Before joining Network Rail, she worked for a diverse range of organisations including Serco Plc in the Docklands Light Railway, public relations group Hunstworth Plc and as an auditor in Turkey. Having spent 17 years as a finance professional in various industries, Meliha has extensive experience in franchising & bidding, outsourcing, financial and commercial management in complex organisations.

Meliha is a qualified chartered accountant with ACCA and holds an Economics & Business Administration degree. She was appointed as a director of the Trustee Company in March 2016 and a Non-Executive Director of RPMI Railpen in November 2017.

### 6. Mark Engelbretson

Mark is Head of Pensions at Network Rail, prior to that, Mark has worked in various Heads of Pensions/Secretary to Trustee roles for the likes of British Airways, Carnival Plc and Mothercare in a career that extends over 26 years. Mark was appointed as a director of the Trustee Company in February 2017.

**7. David Gott (Chair of Case Committee from 30 June 2019)**

Dave joined British Rail in 1980 and worked in the signalling grades in the Lincoln/Retford areas. He was elected to the BRSF Management Committee in 2001 and elected to the Network Rail Pensions Committee in 2005.

Dave was appointed as a director of the Trustee Company in 2007 and re-elected in 2012. In August 2017 Dave was appointed as a Non-Executive Director of RPMI.

**8. John Hamilton**

John is a Chartered Accountant and sits on the Group Executive Committee of Stagecoach Group plc as the Group Taxation Director and the Director of Pensions. He is also an experienced trustee of the group's pension scheme. John was initially appointed a director of the Trustee Company in 2008, and was re-elected for another six year term in 2014. John has been the Chair of the Remuneration Committee of RPMI since 2014.

**9. Charles Harding**

Charles has been a Senior CSEU Representative for over 20 years and was employed as an engineer by a leading rail freight company until 2015. He is a member of Unite the Union. Charles was appointed as a director of the Trustee Company in 2007.

**10. Peter Holden**

Peter worked in the British Transport Police Force for 30 years, and retired as Chief Superintendent (Divisional commander) in 2016. He has been a member of the British Transport Police Force Superannuation Fund Committee since 2009, and is currently a pensioner nominated member of the Committee. Peter is also a member of the Valuation Working Group for the Fund. He was appointed as a director of the Trustee Company in 2019.

**11. Richard Jones (Chair of Defined Contribution Committee)**

Richard's 30-year railway career included engineering, commercial, corporate real estate and general management positions at BRB, Virgin, Alstom and AECOM. He was involved in the leadership and governance of the Scott Wilson Railways (now AECOM) RPS Section for over 10 years. Richard became a railways pensioner in 2018 and was subsequently appointed to a Civil Service role unrelated to the rail industry.

Richard is a Chartered Mechanical Engineer, an IoD Chartered Director and MBA graduate, and has non-executive experience with a Police Authority, including leading on pensions matters.

Richard was appointed as a director of the Trustee Company in March 2016. In January 2017, he was appointed as a Non-Executive Director of RPMI.

**12. Christine Kernoghan (Chair of Integrated Funding Committee from 11 June 2019)**

Christine is the Head of Financial Services at First MTR South Western Trains Limited where her responsibilities include management and operation of the pension scheme. She has been involved with the Railways Pension Scheme for 23 years taking an active role in developing effective communications and improved administration. She is a long standing member of the South Western Railway Pension Committee. Christine was appointed a director of the Trustee Company in 2016.

**13. Michael Lynch**

Michael is the Assistant General Secretary of the RMT, Britain's largest rail union. Before being elected as a union official in 2015 he worked for 22 years for Eurostar in fleet engineering. He was appointed as a director of the Trustee Company in 2015. Michael has served on the Eurostar Pensions Committee since it was established and is a member of the Network Rail Pensions Committee.

**14. John Mayfield (Chair of the Audit & Risk Committee until he retired on 31 March 2020)**

John worked as the British Railways Board's Chief Internal Auditor and then as Finance Director at the British Rail Property Board until he retired in 1993. He is a past president of the Retired Railway Officers' Society. He was a member of the 1994 Pensioners Section Pensions Committee from 1994 to 1996 and was appointed as a director of the Trustee Company in 1996. In February 2014, he was appointed as a Non-Executive Director of RPMI Railpen. John retired from the Trustee Board in March 2020.

**15. Richard Murray**

Richard is the Group Pensions Director for FirstGroup, having joined the Reward & Pensions team in 2008. He started his career with an employee benefits consultancy after graduating from the University of Edinburgh with a degree in Economics and Statistics, and now has over 20 years pensions experience. Richard has had a variety of trustee roles for FirstGroup pensions arrangements in the UK and North America. He was appointed a director of the Trustee Company in 2019.

**16. Gary Towse**

Gary joined the British Transport Police in 1974 and served in the South East Area. He was a Committee member of the British Transport Police Force Superannuation Fund from 1992 to 2006. He was elected the Treasurer of the British Transport Police Federation between 1996 and 2006. Gary was appointed as a director of the Trustee Company in 2004 and a Non-Executive Director of RPMI in 2009.

**17. David Tyson**

David worked in the rail industry as a train driver for 38 years and retired in 2018. He has served on the BR, Anglia and 1994 Pensioners Section Pensions Committees and he is the former president of ASLEF's Executive, which he served upon between 1994 and 2004. David was appointed as a Trustee Company director in February 2001 and was a Non-Executive Director of RPMI from 2009 until 2017.

**18. John Wilson**

John is an Actuary and was formerly employed by British Rail where he worked with others in establishing the Railways Pension Scheme. He has nearly 40 years' experience advising companies about their pension arrangements. John has been a member of the Pensions Committees of several sections of the RPS. He was appointed a director of the Trustee Company in 2008.

The Trustee Directors during 2019



5 5

**Christopher Hannon**  
 (Chair of Trustee from 19 March 2019, Chair of IFC until 11 June 2019)  
**Appointed by:** Freight Train Operating Companies & Support Services  
**Term of office ending:** 2022



1 1

**John Chilman**  
 (Chair of the Trustee until 19 March 2019 when he resigned)  
**Appointed by:** Passenger Train Operating Companies  
**Term of office ending:** 2024



3 3

**Anthony Cotgreave**  
 (Chair of Case Committee until he retired on 30 June 2019)  
**Nominated by:** British Transport Pensioners' Federation  
**Term of office ending:** 2020



5 5

**Gerard Doherty**  
**Appointed by:** Transport Salaried Staffs' Association (TSSA)  
**Term of office ending:** 2024



5 5

**Meliha Duymaz Oludipe**  
**Nominated by:** Network Rail  
**Term of office ending:** 2020



2 5

**Mark Engelbretson**  
**Nominated by:** Network Rail  
**Term of office ending:** 2024



5 5

**David Gott**  
**Nominated by:** National Union of Rail, Maritime & Transport Workers ('RMT') and British Railways Superannuation Fund (BRSF) Management Committee  
**Term of office ending:** 2024



5 5

**John Hamilton**  
**Appointed by:** Passenger Train Operating Companies  
**Term of office ending:** 2020



3 5

**Charles Harding**  
**Nominated by:** Confederation of Shipbuilding & Engineering Unions (CSEU)  
**Term of office ending:** 2020

The Trustee Directors during 2019



**Peter Holden**  
**Nominated by:** British Transport Pensioners' Federation (Pensioners Federation)  
**Term of office ending:** 2026



**Richard Jones**  
**Nominated by:** All employers  
**Term of office ending:** 2022



**Christine Kernoghan**  
**Chair of Integrated Funding Committee from 11 June 2019**  
**Nominated by:** Passenger Train Operating Companies  
**Term of office ending:** 2022



**Michael Lynch**  
**Appointed by:** National Union of Rail, Maritime & Transport Workers (RMT)  
**Term of office ending:** 2022



**John Mayfield**  
**Chair of the Audit and Risk Committee**  
**Nominated by:** Retired Railway Officers' Society  
**Term of office ending:** 2020



**Richard Murray**  
**Nominated by:** Passenger Train Operating Companies  
**Term of office ending:** 2024



**Gary Towse**  
**Nominated by:** British Railways Superannuation Fund (BRSF) Management Committee and British Transport Police Federation  
**Term of office ending:** 2022



**David Tyson**  
**Nominated by:** Associated Society of Locomotive Engineers and Firemen (ASLEF)  
**Term of office ending:** 2022



**John Wilson**  
**Appointed by:** Freight Train Operating Companies and Support Services  
**Term of office ending:** 2020

Trustee Board and Committee meetings attended:



## Membership and activities of board and principal committees during 2019

Attendance at the Trustee Board is shown in the table below.

The Trustee Board maintains oversight of the RPS and has delegated certain functions to five principal committees.

	Name	Number of meetings attended	Number of meetings eligible to attend
	Chris Hannon (Chair) <sup>1</sup>	5	5
	John Chilman <sup>2</sup>	1	1
	Anthony Cotgreave <sup>3</sup>	3	3
	Gerry Doherty	5	5
	Meliha Duymaz Oludipe	5	5
	Mark Engelbretson	2	5
	David Gott	5	5
	John Hamilton	5	5
	Charles Harding	3	5
	Peter Holden <sup>4</sup>	1	1
	Richard Jones	5	5
	Christine Kernoghan	5	5
	Michael Lynch	5	5
	John Mayfield	5	5
	Richard Murray <sup>5</sup>	1	1
	Gary Towse	5	5
	David Tyson	5	5
	John Wilson	4	5

1. Chris Hannon was appointed Chair on 19 March 2019
2. John Chilman resigned from the Board on 19 March 2019
3. Anthony Cotgreave resigned from the Board on 30 June 2019
4. Peter Holden was appointed to the Board on 25 September 2019
5. Richard Murray was appointed to the Board on 16 October 2019

In addition to the above scheduled Trustee Board meetings, there were also seven special committee meetings during the year that Trustee Directors were eligible to attend.

A short report has been prepared on each of the Trustee Board's principal committees which provides an overview of the main activities of each committee during the year. The reports also list all meetings which Committee and Board members were eligible to attend. All Trustee Directors may, and some often do, attend meetings of the Trustee Board's Committees in addition to those of which they are formally members.

### Trustee Fee Disclosures

Trustee Directors are remunerated in accordance with the contribution which they make to the work of the Trustee Company and their legal responsibilities. The core fee for a Trustee Director is £14,687. Additional payments are made for extra responsibility such as chairing meetings.

The total fees paid in respect of Trustee Directors were as follows:

	2019	2018
Salaries & Fees	£338,962	£369,693
Employer NI Contributions	£20,790	£17,798
Expenses	£46,661	£57,615
<b>Total</b>	<b>£406,413</b>	<b>£445,106</b>

The total fees paid during 2019 and 2018 fall within the following bandings:

Range	2019	2018
£60,000 - £70,000	1	1
£30,000 - £40,000	2	2
£20,000 - £30,000	7	7
£0 - £20,000	6	6
<b>Total</b>	<b>16</b>	<b>16</b>

\*Note: Includes one Trustee Director that has waived their right to remuneration.

## Audit and Risk Committee (ARC)

The ARC comprises six directors of the Trustee Board, and includes members with appropriate accounting qualifications and experience. External auditors and the Business Assurance team attend meetings at the invitation of the ARC, and relevant directors and officers of RPMI and RPMI Railpen also attend as appropriate.

Membership and attendance during 2019 are shown in the following table:

	Name	Number of meetings attended	Number of meetings eligible to attend
	John Mayfield (Chair)	4	4
	John Chilman	1	1
	Meliha Duymaz Oludipe <sup>1</sup>	3	4
	Charles Harding	4	4
	John Hamilton <sup>2</sup>	1	2
	Richard Jones	4	4
	Gary Towse	3	4

1. Meliha Duymaz Oludipe was appointed Chair of the Committee on 31 March 2020
2. John Hamilton was appointed to the Committee on 11 June 2019

The key responsibilities of ARC are outlined in a formal Terms of Reference which is regularly reviewed and updated and includes:

- recommend the appointment of the external auditor;
- reviewing the adoption of accounting principles and policies;
- reviewing all aspects of the annual accounts;
- approve the scope and programme of work of Business Assurance, and monitor delivery;
- reviewing the effectiveness of external audit and Business Assurance; and
- overseeing the control and risk management systems of the Trustee and operating companies.

ARC is scheduled to meet up to four times a year to discuss, consider and review the audit work of the external auditors, financial reporting arrangements, the work of the RPMI Business Assurance team and general internal control and risk management issues. The Committee also reviews the Annual Report and Audited Financial Statements prior to Board approval.

During 2019, ARC met on four occasions. It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2018, received reports on the progress of the 2019 audit plans, and considered and approved the internal audit plan for 2020.

In addition, ARC received and considered reports from the Chair of the RMC summarising the activities of the RMC and its work in facilitating the Trustee's risk management process.

ARC co-ordinates and monitors the risk management process, ensuring that it is effective in identifying, evaluating and managing the key risks faced by the Trustee. On a day-to-day basis, this is delegated to members of the RMC, which met four times during 2019 and may be attended by representatives of ARC.

Financial reporting matters considered by ARC in 2019 included the Annual Report and Financial Statements of RHL and the Trustee, the railways pension schemes and pooled funds and the operating companies (RPMI and RPMI Railpen). ARC also received and considered the Report by the External Auditor on the 2018 Report and Financial Statements and the External Audit Strategy for 2019.

As part of these reviews, ARC has specifically considered the processes that enable reliable and relevant valuations of the Scheme's assets. The Trustee retains BNY Mellon to provide the valuation of quoted securities, and two independent property valuers for UK properties, Knight Frank and CBRE. BNY Mellon in turn relies, wherever possible, on independent sources of data, ensuring that the majority of the pooled fund's quoted assets are priced completely independently of the fund managers' valuations. In addition, as part of the audit of the year end financial statements, the external auditors perform their own independent valuation of pooled fund assets and compare this to the Trustee's valuation, reporting any material discrepancies to ARC. ARC is satisfied that these arrangements are robust.

More detail on the specific valuation principles adopted for each category of investments can be found in the accounting policies set out on page 14.

Other matters considered by ARC were the Internal Control Assurance Report (ISAE 3402 and AAF 01/06) prepared for the pensions administration business of RPMI for the period from 1 January 2018 to 31 December 2018, Trustee Expenses and Hospitality & Gifts Policy, an analysis of pooled fund costs, the provision of legal and actuarial services and the progress of Chrysalis. ARC also receives reports of any significant security incidents or frauds and will consider any governance issues arising from external or internal reports via the Policy for Confidential Reporting of Concerns. There were no reports received under the Confidential Reporting of Concerns Policy. At each meeting of the Committees, private discussions are held in a closed session with the external auditors and the Head of Business Assurance.

ARC is satisfied that it has received sufficient, reliable and timely information to satisfy itself that the control and risk management systems are operating effectively.

## Integrated Funding Committee (IFC)

The Committee was established to manage and agree integrated funding plans for the railways pension schemes and their sections, incorporating integrated risk management of employer covenant, investment strategy and funding issues. It determines the allocation of individual schemes' and sections' assets to the Trustee's pooled funds and decides on changes to schemes' and sections' contribution rates and benefit structures. The membership and attendance of the Committee during the year is shown in the following table:

	Name	Number of meetings attended	Number of meetings eligible to attend
	Christine Kernoghan (Chair) <sup>1</sup>	3	3
	Anthony Cotgreave	3	3
	Gerry Doherty <sup>2</sup>	3	3
	Mark Engelbretson	5	6
	John Hamilton	2	6
	Chris Hannon <sup>3</sup>	3	3
	Michael Lynch	4	6
	Gary Towse	5	6
	David Tyson	5	6
	John Wilson	4	6

1. Christine Kernoghan was appointed to the Committee and as Chair on 11 June 2019
2. Gerry Doherty was appointed to the Committee on 30 June 2019
3. Chris Hannon resigned from the Committee and as Chair on 11 June 2019

In addition to the six scheduled Integrated Funding Committee meetings, there were two additional meetings scheduled during the year.

### Valuation

The actuarial valuation of the Railways Pension Scheme as at 31 December 2016 is largely complete for the non-TOC sections. For the 2016 valuation, the Trustee has developed further its integrated funding approach which addresses funding, investment and employer covenant matters together. For sections which are closed to new entrants, the Trustee is adopting a term-dependent approach to setting discount rates which reflects the anticipated progression of the investment strategy as sections mature.

Each of the 106 sections of the RPS as at 31 December 2016 are treated as a separate entity with their own valuation results. This valuation falls under the Pensions Act 2004, and means that agreement on the valuation results is needed from each sponsoring employer.

By the end of 2019, the Committee had agreed integrated funding proposals with almost all non-TOC employers. The Trustee has been actively engaged with TOC stakeholders during 2019 and settling the valuations for each TOC section will be a key part of the Committee's work during 2020.

A report from the Scheme Actuary is included on pages 68-70 which refers to the requirement to produce individual Statements of Funding Principles and Schedules of Contributions for each section. The individual actuarial certificates of the latest completed valuation for each section have not been included in the annual report but are available on request from RPMI at the address in Appendix H.

Consultation with stakeholders is now underway for the valuations of sections of the RPS at 31 December 2019. The Committee expects to agree valuation solutions throughout 2020.

### Employer covenant

A key factor when considering each valuation is the strength of the sponsoring statutory employer, and the Committee has the challenging task of assessing this for all the sponsoring employers in the RPS. In undertaking this work, the Committee continues to be advised by RPMI's team of experienced employer covenant professionals, supplemented by external advisors as appropriate.

The Committee has agreed a range of covenant enhancement proposals with employers to improve their covenant assessments. These include a range of guarantees, loan subordination agreements, and other security-enhancing arrangements.

As well as assessing employer strength for valuation purposes, the Committee also considered the impact of various corporate transactions and, where appropriate, agreed mitigation or covenant support arrangements with the employers.

### Rule changes

During the year, the Committee agreed a range of benefit and contribution changes for individual sections of the RPS. Each proposal from an employer, after review by Pensions Committees where applicable, is considered in detail and the impact on funding and contributions addressed. Where such proposals are approved, changes are then reflected in the Rules of the section.

The Committee also progressed the changes to arrangements for specific sections resulting from corporate reorganisations within groups of sponsoring employers or changes to franchises affecting train operating companies.

### Investments

The Committee reviews section-specific investment strategy and allocations to pooled funds. As part of the integrated funding approach, the Committee considers strategy within a framework which allows for individual section characteristics, such as maturity, strength of employer covenant and tolerance for

illiquidity, to be taken into account when deciding the appropriate asset allocation. Investment strategies are thus considered as part of overall valuation proposals.

**Settlement of liabilities**

As sections mature, it is appropriate in some cases to reduce risk by passing liabilities to an insurance company. Several sections have bought bulk policies which cover their liabilities.

**Case Committee (CC)**

The Case Committee meets to consider decisions on case work applications from individual members, of the RPS or IWDC arrangement where the decision making powers have not been delegated to a Pensions Committee or to RPMI. The membership and attendance of the Committee during the year is shown in the following information.

	Name	Number of meetings attended	Number of meetings eligible to attend
	Anthony Cotgreave (Chair until 30 June 2019)	3	3
	Mark Engelbretson <sup>1</sup>	2	3
	David Gott (Chair from 30 June 2019) <sup>2</sup>	5	5
	Charles Harding	4	5
	Christine Kernoghan	5	5
	John Wilson	4	5
	Richard Murray	1	1
	Peter Holden	1	1

1. Mark Engelbretson resigned from the Committee on 11 June 2019
2. David Gott was appointed Committee Chair from 30 June 2019

In 2019, the Case Committee held five scheduled meetings and one special meeting.

As at 31 December 2019, the Case Committee had responsibility for 85 sections of the Railways Pension Scheme.

During 2019, the Case Committee considered and made decisions on 94 cases which can be categorised as follows:

- Applications and reviews of incapacity benefits
- Applications for payment of lump sum death benefit
- Applications for spouse, children and dependant’s pensions
- Appeals under stage 2 of the internal disputes resolution procedure
- Applications for early payment of preserved benefits
- Reviews of eligible dependant’s pension after being in payment 10 years
- Clause 7E - forfeiture of benefits cases
- Applications to re-join the Scheme

**Defined Contribution Committee (‘DCC’)**

The purpose of the DCC is to ensure appropriate management and governance of the AVC and DC arrangements of the railways pension schemes. These comprise BRASS, AVC Extra, the IWDC Section and the RPS Defined Contribution Arrangement (collectively the ‘DC arrangements’). It should be noted that whilst the RPS Defined Contribution Arrangement still exists it will ultimately be wound-up, all assets and members transferred into the IWDC Section in February 2019. The membership and attendance of the DCC during 2019 is shown in the following table:

	Name	Number of meetings attended	Number of meetings eligible to attend
	Richard Jones (Chair)	4	4
	Gerard Doherty	4	4
	Mark Engelbretson	3	4
	David Gott	3	4
	Charles Harding <sup>1</sup>	2	3
	Christine Kernoghan <sup>2</sup>	3	3
	Richard Murray	1	1
	David Tyson <sup>3</sup>	1	1

1. Charles Harding resigned from the Committee on 11 June 2019
2. Christine Kernoghan resigned from the Committee on 11 June 2019
3. David Tyson was appointed to the Committee on 18 September 2019

The Trustee Board has delegated to the DCC responsibility for ensuring that the DC arrangements can deliver good outcomes for members at retirement, and finding the best ways to support members to achieve their objectives. It helps to shape and articulate the Trustee's policy on DC matters.

The Defined Contribution Committee's mission is to provide DC arrangements which are designed for the long term and offer good value for members, including default investment strategies which are suitable for the majority of members throughout their scheme membership, and an appropriate range of fund choices for those who wish to self-select. Members are provided with the right information and support to ensure they retire with the best possible outcome.

The Trustee applied to the Pensions Regulator for the IWDC Section to become an Authorised Master Trust. Following a significant amount of work by both RPMI and the DCC, Authorisation was granted, with no advisories, on the 2nd August 2019. An outcome that delighted both RPMI and the DCC. This outcome means that the Scheme's governance, systems and processes, and the fitness and competence of the Trustee, will be supervised by the Regulator.

The DCC receives regular reports on the administration of the DC arrangements, reviews RPMI's administration service levels, and monitors the timeliness with which employers remit contributions and data. It sets and monitors the implementation of the Communications Strategy for the DC arrangements and approves RPMI's Guide to Services for the IWDC Section.

The DCC is responsible for evaluating the investment performance of the DC arrangements and ensuring that the investment objectives and characteristics of the DC funds are appropriate. To do this, it oversees the investment funds offered to members, including the default options, members' choices at retirement, and how issues relating to investments in the DC arrangements are communicated to members.

The DCC monitors members' investment choices and tailors communications to encourage them to make the best decisions for their circumstances and to plan for their future. The same suite of investment funds is offered to new members of all the DC arrangements, although the default approaches may be slightly different to reflect the characteristics of the various arrangements.

The DCC conducts regular investment reviews to ensure the funds are being managed in accordance with the Trustee's objectives. A formal DC investment strategy review with respect to the lifestyle investment strategies, default approaches and self-select options is currently underway and will be completed during 2020.

Each year the DCC undertakes a comprehensive assessment of the extent to which the DC arrangements offer good value for members. Its conclusions are included in the Defined Contribution Chair's Statement attached to this Report. This requirement, introduced by legislation in 2015, is designed to give members and employers confidence that the RPS offers high quality DC arrangements.

The DCC assessed the administration, communications, governance, and investment services provided to the Scheme, alongside the level of member-borne charges and available information about transaction costs. Work to deliver further improvements in value for members is due to complete in 2020, as part of the implementation of a new pensions administration system.

The DCC is responsible for making sure the DC arrangements are managed in line with the Trustee's DC Vision and Mission.

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## The Trustee's DC Vision Statement is 'for the railways pension schemes to be the DC offering of choice for rail employers and their members, to provide good outcomes for members at retirement'.

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The DC Vision Statement is supported by a framework of core principles, which set out the key areas to focus on to deliver the overall DC vision statement, and sub-principles, which support the achievement of each of the core principles and give direction to RPMI and RPMI Railpen concerning the operation of the DC arrangements in practice.

The DCC has continued to assess the DC arrangements against the requirements of the Pensions Regulator's code of practice and supporting guides to ensure compliance with legislation and the Regulator's expectations. It has also received regular updates on DC consultations, and statutory and regulatory developments. We will continue to engage with policymakers via consultation responses, and review as appropriate the operation of the railways pension schemes to ensure that they remain both compliant and attractive to employers and members.

The DCC will also play a key role in determining the DC Pension Freedoms solution alongside the wider Trustee body. Currently the Scheme does not offer members a DC retirement solution. As a result members are exposed to the open market. The DCC initiated work to address this gap in 2019. Significant progress has been made and it is expected that a final solution will be approved in Q2 2020.

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## Event after the balance sheet date

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Since the end of 2019, a new coronavirus, COVID-19 started in China and spread to the rest of the world. On 11 March 2020, the World Health Organization declared a global pandemic and recommended containment and mitigation measures worldwide. The pandemic has had a pervasive impact on the global economy, stock markets and people's daily lives.

For the purpose of this report, and the Scheme's annual financial statements for 2019, the impact of COVID-19 is limited. The Scheme provides pensions for 149 companies operating within the privatised railway industry. The Scheme is administered by RPMI Limited who has responded to this impact by

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deploying the relevant business continuity plan. Investment income is generated from the underlying investments of pooled funds. The Scheme invests in a diverse range of funds in order to ensure the impact on the pooled funds is minimised during periods of significant market volatility such as this. As a result of COVID-19 there is increased risk of employers failing to pay over contributions on time. Of the 149 employers served by the RPS, 20 are TOC's whose revenues have been severely impacted by COVID-19. The DfT has put in place an Emergency Measures Agreements which guarantees to support the TOC's for at least six months. Furthermore, s30 of the Railways Act 1993 places a duty on the Secretary of State to ensure that train services continue when a franchise ceases to operate. The Trustee is continuously monitoring this situation and will reassess accordingly should this period be extended. The Employer Covenant and Client Relationship Teams are in close contact with all employers and none have requested contributions holidays other than in relation to furloughed employees. In the event that an employer fails to pay over contributions due, the Trustee has put contingency plans in place to ensure we have liquidity to meet cash outflows.

The Scheme incurs costs mainly in relation to benefits paid to members. These costs are covered by contributions into the Scheme and are modest in relation to the total Scheme assets. The amount of cash held in section accounts has been increased to ensure that for operational or pooled fund liquidity reasons the Scheme is able to meet benefits as they fall due for a period of at least 3 months. Section cash levels as a percentage of overall assets across sections vary but are low as a proportion of overall section assets. This cash position is being assessed on a rolling basis and the Trustee will respond to any change in this position as appropriate.

There is a risk that some contributing employers will go into administration as a result of COVID 19. In this scenario sections would either be wound up or enter the PPF. Due to the sectionalised nature of the RPS, the risk that the Scheme's going concern status as a whole would be significantly impacted is extremely low.

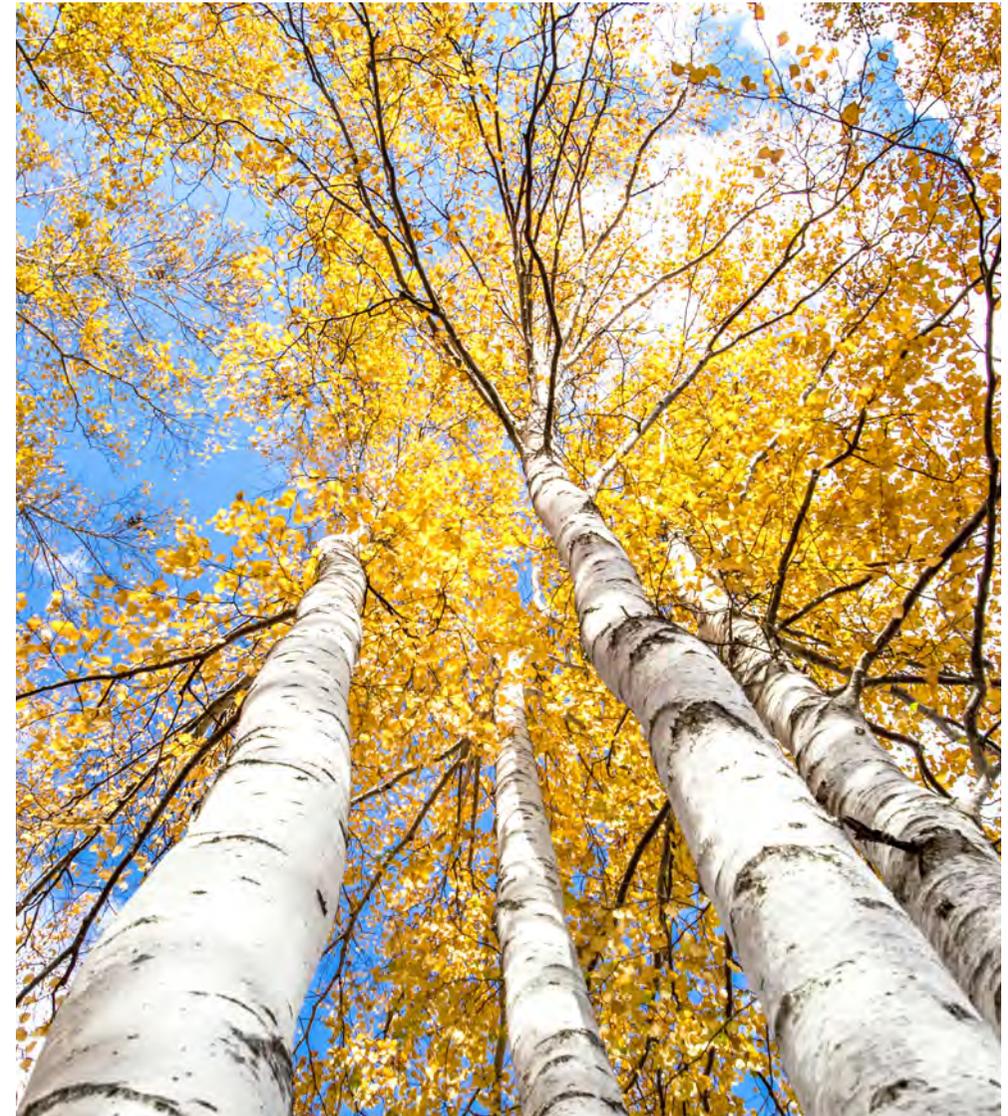
The Trustee has considered the Scheme's financial and liquidity position for at least 12 months after this report. In addition, the Trustee is satisfied that it has the ability and intention to continue to operate the pension arrangement of the RPS. As such, the Trustee has concluded the Scheme is a going concern and has prepared the financial statements on this basis as explained in note 1 to the financial statements.

For and on behalf of the Trustee:



**Christopher Hannon**  
Chair, Trustee Company

19 May 2020



## Silver birch

*Betula pendula*, commonly known as silver birch, is a deciduous tree with silver-white bark. It thrives in dry woodlands, downs and heaths mainly in the UK and Europe.

A collection of ornate silver trophies is displayed on a dark wooden surface. The trophies vary in design, including large cups with handles and smaller, more intricate designs. One trophy in the center has a red, white, and blue ribbon tied around its base. The background is a warm, golden-brown color, suggesting a spotlight or stage lighting. In the top left corner, there is a blue banner with white text.

# The Trustee Investment Report

## Silver trophy

Trophy comes from the Greek word trope, meaning 'a turning, defeat of the enemy.' Throughout time a trophy has been given as a prize for winning a competition. For team sports in particular, trophies are often a silver cup.

## Introduction

The Trustee is responsible for ensuring that suitable investment strategies are agreed for all sections of the RPS. The policies that guide how the assets of each section of the RPS are invested are set out in the SIP, which is shown in Appendix G.

The mission of the Scheme is to pay members' pensions securely, affordably and sustainably. To achieve these aims the assets of the Scheme are invested to generate strong returns over the long term.

Investment strategy for each section is set taking account of, amongst other factors, the specific liability profile of that section. The Trustee has a sub-committee, the IFC, responsible for carrying out this work, sometimes working with a Pensions Committee where established with delegated investment responsibilities.

The Trustee has two wholly owned operating subsidiaries, RPMI and RPMI Railpen, to which it delegates the day-to-day operation of the Scheme.

## Investment management arrangements

The assets of the Scheme are invested through a number of pooled investment funds managed by RPMI Railpen, each with a different risk and return profile. These funds are managed as if they are internal unit trusts and each pooled fund is approved by HMRC. Each section holds units in some or all of the pooled funds. The use of these pooled funds enables sections to hold a broader range of investments more efficiently than may have been possible through direct ownership. In some cases, sections may also hold annuity contracts with an insurance company regulated by the Prudential Regulation Authority.

The range of pooled funds has been reviewed and simplified in recent years to ensure it is flexible enough to be tailored to the needs and particular circumstances of individual sections, while also allowing Scheme assets to be invested as much as possible as if they belonged to a single pension fund.

In many cases, the pooled funds are multi-asset where the mix of asset classes can be varied according to market conditions and opportunities. These funds seek to capture returns more efficiently and effectively than single asset pools. They enable RPS sections to hold a managed portfolio of assets rather than a fixed allocation, which consequently should have a less volatile return profile.

RPMI Railpen sets strategic portfolios for each of the multi-asset pooled funds on an annual basis. Each pooled fund has at least one performance comparator and risk parameters within which additional returns may be targeted. Within the pooled funds, RPMI Railpen is able to make use of internal and external fund management capabilities, and both passive and active management as appropriate.

The use of external active management has declined substantially within the Scheme. In addition, fee structures in public markets have increasingly moved to flat fees with fewer performance related payments. In private markets, fees are being reduced through an increase in co-investments and bespoke arrangements.

**The focus for pooled fund management in 2019 has been efficient implementation of investments consistent with the agreed strategic portfolios.**

This included further developing the in-house asset management capabilities of RPMI Railpen, notably in equities and private markets.

Within the Growth Pooled Fund, RPMI Railpen increased the allocation to internally managed portfolios for ARP equity strategies. These portfolios systematically target investment in equities that exhibit risk premia factors with an economic or behavioural rationale that are expected to provide additional returns over the long-term. Also within the equity portion, RPMI Railpen has gradually increased the allocation to the Fundamental Growth Portfolio, a concentrated portfolio investing in companies with sustainable earnings growth. Over 90% of the Growth Pooled Fund's equity allocation is now managed in-house.

Within the property allocation, the in-house team have undertaken significant numbers of new lettings, lease renegotiations, rent reviews and development activity, adding significant value to the portfolio. They have also completed a number of purchases and sales of UK commercial property, with an aim to reduce retail exposure and increase exposure to alternative sectors. This included the sale of a B&Q site in London at a substantial uplift on the previous valuation.

The allocation to US government bonds was sold during the year in response to a decline in yields.

The Illiquid Growth Pooled Fund made further allocations during the course of the year, with a particular emphasis on opportunistic investments focused on communication, innovation and financial services. The in-house team continues to build exposure to private debt (lending to private companies) and manage significant distributions from legacy investments in the Private Equity and Infrastructure Funds.

The Long Term Income Pooled Fund made a number of new investments in 2019, including its first direct equity investment of a subsidiary-backed, near-operational wind farm in Scotland.

The De-risking Fund Platform has a range of sub-funds with specific characteristics. These include the Government Bond Pooled Fund, Non-Government Bond Pooled Fund, Long Duration Index Linked Pooled Fund and Short Duration Index Linked Pooled Fund. There have been no material changes to the De-risking Fund Platform and the focus remains on simple and effective implementation, mainly by the in-house team.

## Investment strategy

The IFC is the body that sets investment strategy for all sections without a Pensions Committee, and reviews and approves strategies requested by Pensions Committees. In setting strategies for sections, the profile of the liabilities, along with the covenant strength and views of the sponsoring employer, are taken into account as part of an integrated risk management approach to funding.

Furthermore, the Trustee sets principles for the key aspects of section investment strategy, namely the expected return, risk and liquidity ('RRL') of investments. This is referred to as the RRL framework and takes into account covenant strength and maturity of pension liabilities. The IFC uses these principles in assessing and agreeing the investment strategy for each individual section.

The exact mix of pooled funds used for investment strategy is determined for most sections by RPMI. RPMI works with the IFC to agree investment strategies for sections as part of the actuarial valuation proposals.

## Liquidity of investments

Investments described in the financial statements as 'quoted' or 'exchange traded' are either listed on a recognised investment exchange, or traded in a secondary market where prices are usually readily available from a broker, dealer, industry group or other pricing service, and where those prices are representative of actual market transactions on an arm's length basis. These investments are assumed to be realisable at accounting fair value although, on occasion, markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices at least equal or close to accounting fair value.

Investments described as 'unquoted' in the financial statements – mainly property, private equity (including infrastructure), OTC derivatives and hedge funds – are unlisted and for some, there is no organised public market. These investments are carried at estimated fair values in accordance with the Trustee's accounting policies, as set out in the notes to the financial statements. These asset classes are generally less liquid than quoted or exchange traded investments, either because of the lack of an organised public market, the nature of the instruments or contractual arrangements. For these reasons, it is not usually possible to realise part or all of such assets at short notice.

## Economic commentary

The global economic outlook became increasingly optimistic over the course of 2019, reversing the heightened concerns witnessed towards the end of 2018.

A number of central banks cut interest rates during 2019 and, in some cases, reversed prior interest rate rises from 2018. This helped to allay fears of

a near-term recession. The US Federal Reserve cut interest rates three times in 2019 and announced the end of its quantitative tightening programme. The European Central Bank cut its deposit rate and restarted its quantitative easing programme.

Bond yields moved lower against the backdrop of central bank interest rate cuts. US ten-year government bond yields fell 0.8%, to 1.9%; UK ten-year government bond yields fell 0.5%, to 0.8%; whilst the German ten-year government bond yield fell into negative territory, ending the year at -0.2%.

Trade talks between the US and China dominated headlines for much of 2019, but tensions eased towards the end of the year. A 'Phase 1' trade deal was announced in December 2019, with China agreeing to buy hundreds of billions of dollars' worth of produce from the US. The US agreed to reverse previously enacted tariffs on a number of Chinese products. The seemingly positive outcome of the trade negotiations provided support to risk assets as the year drew to a close.

Global equities were the strongest performing traditional asset class in 2019. Low interest rates helped risk asset valuations over the period. The relatively poor performance of global equities in 2018, and particularly the fourth quarter, provided a solid backdrop for a strong rebound in 2019. The global equity market (represented by the MSCI All Countries World Index in local currency terms) gained 26% over the year. Emerging market equities were also up 18%. Corporate bonds performed well, with the US corporate high yield index up 14%. Of the major currencies, the US Dollar and Euro were down 0.6% and 1.6% respectively in 2019 (trade-weighted terms). Sterling performed well overall, ending the year up 4.4% but experienced volatility, given the ever-changing political developments. Gold was among the best performing assets over the year, gaining almost 19%.

In the UK, uncertainty over the departure date from the European Union (EU) dominated the political landscape. Theresa May was replaced as Prime Minister by Boris Johnson in July. The Conservative party won a significant majority at the General Election in December, paving the way for a withdrawal agreement to pass through Parliament. The UK left the EU formally on January 31st 2020, with a transition in place until at least the end of the current year. While in December 2019 it became certain that the UK would leave the EU, the UK political situation remains highly uncertain and questions around the future trading relationship between the UK and the EU remain.

There have been significant social and economic challenges as a result of the global Covid-19 pandemic during the early part of 2020. This has created a high level of investment market turbulence in the short-term with asset values reacting both positively and negatively as events have unfolded. Governments across the world have also rolled out extensive financial packages to support individuals and businesses, although it is currently too early to draw conclusions on what the long-term impacts of the pandemic will be.

## Investment performance

The Growth Pooled Fund, the largest of the pooled funds managed by RPMI Railpen, invests in a wide range of return-seeking assets. The asset allocation of the Growth Pooled Fund is flexible and will vary, taking into account changing market valuations, consistent with the Trustee's investment beliefs. The aim is to produce an investment return of 4% in excess of UK RPI over the long run. A reference portfolio of market indices (75% equities, 25% bonds) is used principally as a comparator of tolerable risk for the Growth Pooled Fund, although it is also used to provide shorter term information on progress.

The largest portfolio allocation in the Growth Pooled Fund is to global equities and over the year the allocation remained around 65%. Other asset classes held within the Growth Pooled Fund include property, fixed income (high yield and emerging market debt) and total return assets. The previous allocation to US government bonds was sold during the year in response to a decline in yields.

The Growth Pooled Fund return in 2019 was 18.0%. This was significantly ahead of the RPI+4% comparator return and slightly behind the return for the reference portfolio. Over the past 3 years, the Growth Pooled Fund return of 7.9% per annum was ahead of the RPI+4% comparator.

The Passive Equity Pooled Fund is invested in line with a global index weighted by market capitalisation and produced a return of 25.4% in 2019 and 10.9% per annum over the past 3 years. The Global Equity Pooled Fund has fixed weights in major geographic regions and produced a return for the year of 20.9% and 9.4% per annum over the past 3 years.

The Private Equity Pooled Fund provides exposure to a highly diversified range of private market investments. It is made up of a series of sub-funds, each representing a different vintage of private equity investment. The Private Equity Pooled Fund produced an aggregate return of 8.5% in 2019 and 15.9% per annum over the past 3 years.

The Infrastructure Pooled Fund delivered a return of 8.3% for the year and 7.4% per annum over the past 3 years.

The Private Equity and Infrastructure pooled funds are closed to new investments, although they still have some existing commitments being drawn down. New investments in private markets are made within the Illiquid Growth Pooled Fund and the Long Term Income Pooled Fund. These funds are still in the early stages of committing capital for investment.

The Illiquid Growth Pooled Fund delivered a return of 4.3% for the year and 10.4% per annum over the past 3 years. The Long Term Income Pooled Fund delivered a return of -0.7% for the year and 1.1% per annum over the past 3 years.

For the Private Equity, Infrastructure, Illiquid Growth and Long Term Income Pooled Funds, the unquoted nature of the underlying investments means there is often a significant time lag for revised information on underlying investments to flow through to the Pooled Fund valuation.

The De-risking Fund Platform has a range of sub-funds with specific characteristics. These include the Government Bond Pooled Fund, Non-Government Bond Pooled Fund, Long Duration Index Linked Pooled Fund and Short Duration Index Linked Pooled Fund.

The Government Bond Pooled Fund is a UK government bond portfolio, managed internally by RPMI Railpen on a buy and maintain basis. The Government Bond Pooled Fund achieved a return of 1.7% for the year and 0.9% per annum over the past 3 years.

The Non-Government Bond Pooled Fund is managed on a buy and maintain portfolio by an external fund manager and achieved a return of 11.9% for the year and 4.6% per annum over the past 3 years.

The Long Duration Index Linked Pooled Fund invests in UK inflation-linked government bonds and is managed internally by RPMI Railpen on a buy and maintain basis. The Fund achieved a return of 8.0% for the year and 3.1% per annum over the past 3 years.

The Short Duration Index Linked Pooled Fund was launched in October 2017. It is managed internally by RPMI Railpen on a buy and maintain basis. The Fund achieved a return of 1.2% for the year.

Information on the returns of all pooled funds can be found in Appendix I.

### Section returns

There is a diverse range of different investment strategies amongst RPS sections, reflecting differences in terms of section liability profiles and employer covenants. In 2019, the investment return produced by section assets broadly ranged between 1% and 20%, net of fees and costs. This range reflected the diversity of returns seen in the major asset classes over the year. The returns for the majority of sections were in a narrower range from 10% to 16%.

Over a three-year period, the investment returns of RPS sections broadly ranged from 3% to 9% per annum, while over a five-year time horizon the range of returns was broadly 5% to 10% per annum. Over a ten-year time horizon, the range of returns was broadly 6% to 9% per annum.

### Securities lending

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. Subject to the agreements in place and the constraints on certain portfolios, the custodian is able to make a proportion of securities they hold available for lending to securities houses with short-term requirements. The lending does not impact on the fund managers' investment activities. In place of the lent securities, the pooled funds receive collateral in the form of other securities and/or cash that meet standards set on behalf of the Trustee. For any cash received as security the Agent Lender arranges for these to be reverse repurchased, and replaced by the appropriate securities.

As a result of operating these securities lending arrangements, the pooled funds receive revenues. The custodian also operates indemnification programmes which protect the pooled funds against defaulting borrowers. The pooled funds retain economic exposure to the lent securities, for example by receiving dividends, but loses voting rights temporarily. The Trustee retains the right, however, to recall securities if an important vote is scheduled. A permanent restriction is in place that ensures that shares held in companies that are sponsoring employers of the Scheme are not included in the lending programme.

### Government support

The Transport Act 1980 provides financial support for the BRB's historical obligations. These obligations are met partly in cash and partly by means of substitution orders from the Government.

### Self-investment

The Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 require investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are also restricted to avoid the prospect of the employees losing their jobs and part of their pensions at the same time, should their employer's business fail.

The RPS is in a special position. It is a multi-employer scheme for non-associated employers, with actuarially independent sections. The rules for self-investment therefore apply on a section-by-section basis.

Investment decisions on the purchase and sale of employer-related investments are taken by external investment managers acting within discretions given to them by the Trustee.

RPMI regularly monitors investment manager activity to ensure that statutory limits on self-investment are not breached.

### BRASS and other AVC investments (excludes IWDC and DC arrangement)

The Scheme holdings in the DC Pooled Fund and other AVCs as at 31 December 2019 were £1,588.0m (2018: £1,439.7m).

The total value of these pooled funds as at 31 December 2019 was £1,595.4m (2018: £1,446.6m).

The AVC arrangements for the Scheme, known as 'BRASS' and 'AVC Extra', are administered by RPMI. BRASS is open to all contributing members of the Scheme. AVC Extra is the second contribution top-up arrangement for contributing members of the Scheme.

In setting the range of investment options, the Trustee considered members' objectives as being defined by the expected:

- Level of outcome (long-term return)
- Variability of outcome (long-term risk)
- Volatility of journey, in particular as the members' target retirement age approaches (short-term risk)

The investment fund series for these arrangements is the RPMI Pension Saver Fund Range.

The Trustee has made lifestyle options available to members. One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range, and is designed to be appropriate for a typical member.

These lifestyle options offer a changing asset mix over time designed to meet a typical member's

# Quicksilver

The element Mercury (**Hg**), in its shiny, fastmoving liquid form, is commonly known as quicksilver.



## The Trustee Investment Report

perceived changing financial needs as they move through their working life and approach retirement. This is achieved by switching from higher risk assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their target retirement age.

The BRASS Long Term Growth Lifestyle is the default option for BRASS, while the DC Global Equity Lifestyle is the default option for AVC Extra.

Five self-select funds are also available: Global Equity Fund, Long Term Growth Fund, Index Linked and Global Bond Fund, Aggregate Bond Fund and Deposit Fund.

BRASS includes a further fund, the PAF, although this has been closed to new members since April 2003 and to new contributions since June 2007.

The Trustee may from time to time change the range of funds made available to the members.

The investment comparators for the self-select funds in the RPMI Pension Saver Fund Range are shown in the table below:

Fund	Comparator
Global Equity Fund	FTSE World index (Developed markets hedged into £)
Aggregate Bond Fund	Composite comprising British Government and global corporate bond indices
Long Term Growth Fund	UK RPI plus 4% p.a.
Index Linked and Global Bond Fund	Composite comprising Index Linked Gilt and corporate bond indices
Deposit Fund	1 Month Sterling London Interbank Offer Rate (LIBOR)



# The Trustee Report on Actuarial Liabilities

## Silver fox

The silver fox is a colour variant of the red fox species. Its colour ranges from a bold silver to almost entirely black.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the relevant Employer and set out in a Statement of Funding Principles, which is available to Scheme members on request.

Most of the sections of the Railways Pension Scheme are subject to the Pensions Act 2004, the exceptions to this being the 1994 Pensioners Section and the BR Shared Cost Section. Nevertheless, the valuations for these two sections are also carried out in a consistent manner with the requirements of the Act.

The results of the most recent full actuarial valuation formally completed for each section at the time of writing are summarised below:

Date of last valuation	Number of sections	Composite value of the sections' Technical Provisions £m	Composite value of the sections' assets £m
31 December 2013	27	7,785	7,537
31 December 2015	1	31	31
31 December 2016	75	14,309	13,722
31 December 2017	1	3	4

For those sections that have not already completed a valuation as at 31 December 2016, such valuations are under way.

In addition to the summary above, for one section established in 2015 an initial actuarial valuation as at 31 December 2015 and formal actuarial valuation as at 31 December 2016 have not yet been completed. An initial actuarial valuation for a section established in 2018 is currently being undertaken as at 31 December 2018. This has not yet been completed.

During 2019, one section fully secured its liabilities with an insurer and has been wound up. Two further sections were transferred to the PPF. These three sections have been excluded from the table above.

## Method

The method and assumptions adopted for determining the technical provisions for each section are consulted on by the Scheme Actuary and ultimately agreed between the Trustee and relevant employers. While 'standard' methods and assumptions are adopted as far as possible, as summarised below, some sections have different assumptions. All assumptions adopted are set out in each section's Statement of Funding Principles.

The actuarial method used in the calculation of the technical provisions is the Projected Accrued Benefit Method.

## Significant actuarial assumptions

The 'standard' actuarial assumptions that have been proposed by the Scheme Actuary and Trustee for valuations as at 31 December 2016 are as follows:

### Discount rates:

- For sections which are sponsored by employers classified as passenger Train Operating Companies: a single nominal discount rate of 5.68% pa.
- For other sections which are open to new entrants: dual discount rates which differ depending on the Covenant Category of the section. The nominal discount rates assumed for each covenant category are summarised in the following table:

Covenant category	Pre-retirement discount rate % per annum	Post-retirement discount rate % per annum
Other Covenant Category 1 Sections	5.78	4.03
Open Covenant Category 2 Sections	5.27	3.41

- For sections which are closed to new entrants: a flexible discount rate structure, to allow any long-term investment plans that may be in place for particular sections to be reflected more explicitly, so that each closed section has an individual discount rate structure. This comprises an initial discount rate based on the section's short-term investment strategy and an ultimate discount rate based on the section's expected long-term investment strategy when all members have retired. After an initial period during which the initial discount rate is assumed to be maintained, the discount rate is assumed to change annually in equal steps from the initial to the ultimate discount rate over an appropriate transition period.

**Future Retail Price inflation:** 3.00% per annum

**Future Consumer Price inflation:** 2.00% per annum

**Pay increases:** general pay increases of 3.00% per annum. Promotional pay increases of 0.4% per annum.

**Mortality base tables:**

To set the mortality base tables, members have been segmented into groups that are expected to experience similar levels of mortality depending on category of member, postcode and pension amount. The base table assumptions (including resulting cohort life expectancy) for each mortality group are summarised below:

Category	Combined group by postcode/pension amount	Mortality base table	Base table multiplier	Expected age at death for 65 year old at 31 December 2016
Male pensioners	1	S2 normal males	89%	88.4
	2	S2 normal males	103%	87.3
	3	S2 normal males - heavy	94%	86.2
	4	S2 normal males - heavy	102%	85.5
	5	S2 normal males - heavy	113%	84.7
	6	S2 normal males - heavy	131%	83.5
Female pensioners	1	S2 normal females	106%	89.1
	2	S2 normal females	133%	86.7
Widows	1	S2 normal females	103%	89.3
	2	S2 normal females - heavy	108%	88.3
	3	S2 normal females - heavy	124%	87.2
Male ill-health pensioners		S2 ill-health males	133%	81.7
Female ill-health pensioners		S2 ill-health females	126%	85.5
Widowers		S2 normal males - heavy	120%	84.2

- S2 refers to the SAPS (self-administered pension schemes) mortality tables published by the CMI in February 2014 based on their mortality investigation over the period 2004-2011.
- The SAPS 'heavy' tables are based on mortality experience for pensioners and dependants with relatively low pension amounts.
- 'Normal' refers to pension scheme members who did not retire on grounds of ill health.

The overall resulting life expectancy assumed for each section depends on the proportion of members in each mortality group, which differs significantly between sections.

**Future mortality improvements:**

Allowance for future improvements in mortality from 1 January 2016 onwards has been made in line with the 2016 version of the 'CMI core projection' model published by the Institute and Faculty of Actuaries, assuming a long-term improvement rate of 1.5% pa. For the period 1 January 2007 to 31 December 2015 allowance for future improvements in mortality has been made in line with the 2015 version of the "CMI core projection" model.

A stack of ornate silver spoons with intricate handles, resting on a decorative plate with floral patterns. The plate is placed on a white lace doily. The background is a soft-focus white fabric.

## Glossary of Common terms

### **Silver spoons**

The English language expression, 'to be born with a silver spoon in one's mouth' is to be born into a wealthy and privileged family.

## Glossary of Common Terms

Abbreviation	Description
AAF	Audit and Assurance Faculty
ACCA	Association of Chartered Certified Accountants
AMC	Annual Management Charges
ARC	Audit and Risk Committee
ARP	Alternative Risk Premia
ASB	Accounting Standards Board
ASLEF	Associated Society of Locomotive Engineers & Firemen
AVC	Additional Voluntary Contribution
AVC Extra	AVC arrangement for RPS
BRASS AVC	AVC arrangement for RPS
BRB	British Railways Board
BRSF	British Railways Superannuation Fund
BTPA	British Transport Police Authority
CMI	Continuous Mortality Investigation
CPI	Consumer Price Index
CSEU	Confederation of Shipbuilding and Engineering Unions
DC	Defined Contribution
DC Arrangements	Defined Contribution Arrangements
DCC	Defined Contribution Committee
DfT	Department for Transport
DWP	Department for Work and Pensions
ECB	European Central Bank
ESG	Economic, social and governance
FCA	Financial Conduct Authority
FGP	Fundamental Growth Portfolio
FRS	Financial Reporting Standard

FX	Foreign exchange
GMP	Guaranteed Minimum Pension
ICAEW	Institute of Chartered Accountants in England and Wales
IFC	Integrated Funding Committee
IoD	Institute of Directors
ISAE	International Standard on Assurance Engagement
ITP	Investment Transformation Programme
IWDC	RPS Industry Wide Defined Contribution Section
LIBOR	London Interbank Offered Rate
Omnibus	Section open to employers with fewer than 50 employees
OTC	Over the counter
PAF	Pension Assured Fund
Pensioners' Federation	British Transport Pensioners' Federation
PPF	Pension Protection Fund
PQM	Pension Quality Mark
PRI	Principles for Responsible Investment
PRP	Pensionable Restructuring Premiums
RHL	Railtrust Holdings Limited
RIB	Railpen Investment Board
RMC	Risk Management Committee
RPMI	RPMI Limited
RRL	Return, risk and liquidity
RMT	National Union of Rail, Maritime and Transport Workers
RPMI Railpen	Railway Pension Investments Limited
RPS	Railways Pension Scheme
RROS	Retired Railway Officers' Society
S2P	Second state pension
s75	Section 75 employer debt
SEE	Social, environmental and ethical



## Silver medal

Although many medals are made of silver, in the Olympics and similar sporting events, a silver medal is awarded for second place.

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### Glossary of Common Terms

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SIP	Statement of Investment Principles
TKU	Trustee Knowledge and Understanding
TOC	Train Operating Company
TPA	Transport Professionals Association
TPAS	The Pensions Advisory Service
Trustee	Railways Pension Trustee Company
TSSA	Transport Salaried Staffs' Association
TUPE	Transfer of undertakings (protection of employment)



**Silver dollar**

Silver has been used as money for millenia but only as standardised coinage since the 7th century BC. Between 1794 and 1935, the US dollar coin was minted in silver.



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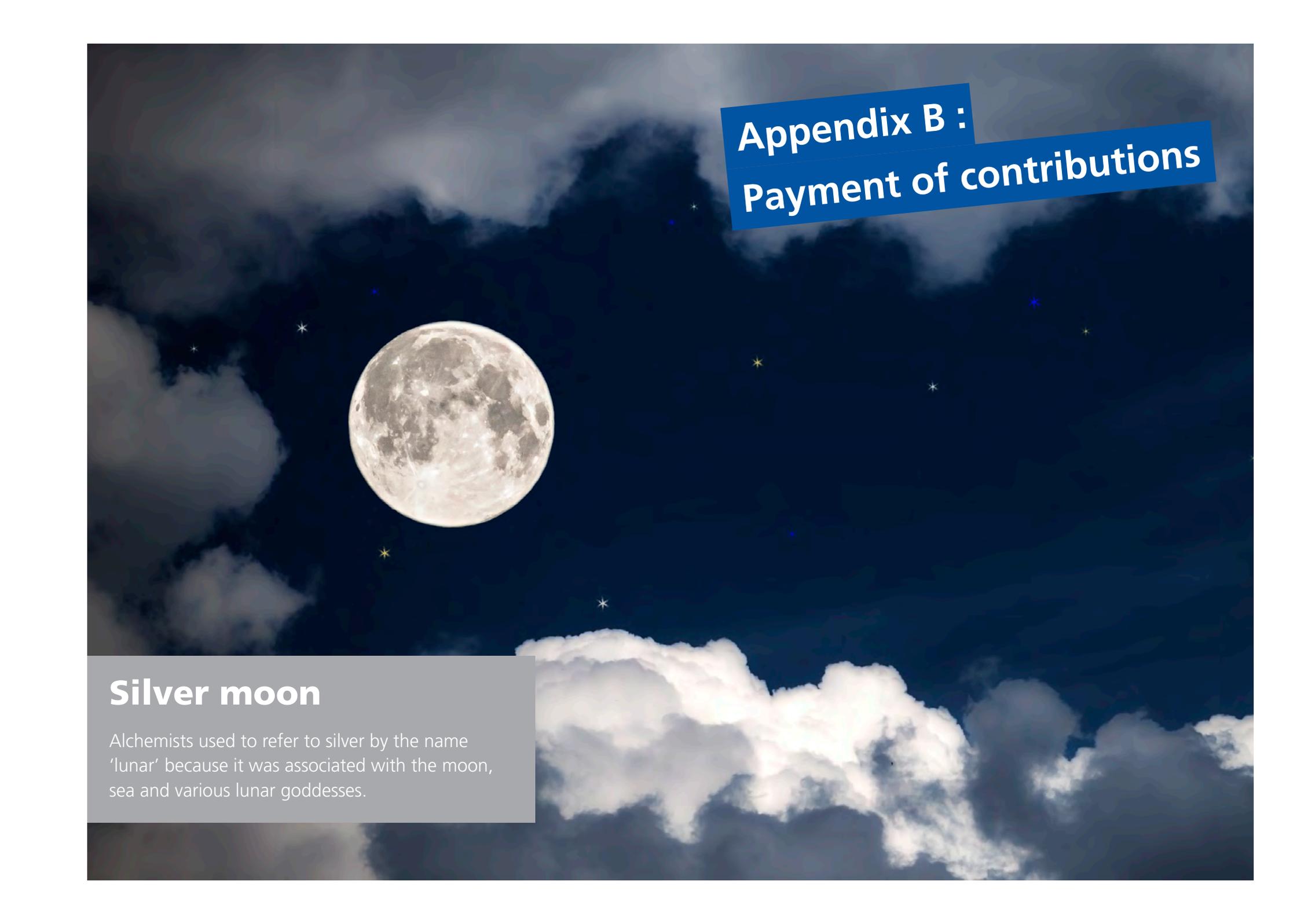
**Appendix A:**  
**Principal advisers to**  
**the Trustee**

**Silver fern**

The silver fern (*Cyathea dealbata*) is a species of tree fern only found in New Zealand.

Professional service	Adviser
Scheme and investment administrator	RPMI
Investment manager and manager of investment managers	RPMI Railpen Aviva
Actuaries	James Mason, Willis Towers Watson Martin Clarke, the Government Actuary (joint actuary for the 1994 Pensioners Section and BR Section)
External auditor	KPMG LLP
Legal advisors	Linklaters Pinsent Masons Sackers Simmons & Simmons Slaughter and May
Principal Custodians	BNY Mellon
Clearing Bankers	The Royal Bank of Scotland PLC
Tax Advisors	PwC EY





## Appendix B : Payment of contributions

### Silver moon

Alchemists used to refer to silver by the name 'lunar' because it was associated with the moon, sea and various lunar goddesses.

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## Participating employers

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The Trustee collects contributions from most employers participating in the Scheme. As at the year end, there were 149 participating employers. Each one may operate from several distinct locations, each with its own payroll department and combination of weekly, fortnightly, four-weekly and calendar-monthly paid employees. As a result, the Trustee deals with employers based at approximately 170 different addresses and 200 distinct payroll combinations.

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## Due dates for payment of contributions

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Under the provisions of the Pensions Act 1995, it is the responsibility of each employer to pay contributions on time. The Trustee is required to prepare, maintain and monitor schedules setting out the dates by which contributions should be received. These dates then become the legal due dates for application of the Pensions Act 1995.

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## Sections in the Shared Cost Arrangement

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The Trustee is required to maintain a schedule of contributions for every section of the Scheme. This schedule sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and also shows the dates on which the contributions are due. Each schedule must be certified by the Scheme Actuary as being sufficient to ensure that the funding objective will continue to be met for the next five years, or will be met by the end of the recovery period.

The schedules of contributions that the Trustee has prepared for the Scheme require payment to be made by the due date set out in the Rules, which is seven working days after the relevant members are paid (compared to the 22nd day of the following month under legislation, if paid by BACS, otherwise the 19-day rule applies). The Scheme Actuary revalues the Scheme every three years. The valuation and schedules of contributions must be signed off within 15 months of the valuation date. The schedules of contributions must be signed by both the Designated Employer and the Trustee.

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## Sections in the Defined Contribution (money purchase) Arrangement and the IWDC Section

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As at 31 December 2019, there were 32 employers actively contributing to the Defined Contribution Arrangement and the IWDC Section. Collection of contributions from these employers is governed by a payment schedule. This is similar to a schedule of contributions, and again sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and the dates on which the contributions are due. Payment schedules do not have to be certified by the Scheme Actuary, but must be prepared by the Trustee and revised from time to time as circumstances require. Once put in place, the employer must pay contributions by the date shown in the schedule.

The Defined Contribution Arrangement was closed to new members on 14 February 2019 and existing members transferred to the IWDC.

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## Late payment of contributions

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The Trustee is required by law to report to the Pensions Regulator late payments of contributions which are of material significance.

The Trustee takes the collection of contributions extremely seriously, and also maintains a dialogue with the Pensions Regulator from whom it seeks advice on best practice. Breaches of the regulations deemed significant by the Trustee are reported in accordance with both applicable law and the Pensions Regulator's recommendations.

Employers are encouraged to participate in the Trustee's direct debit arrangements for all invoiced amounts, which greatly reduces the risk of an employer failing to pay contributions on time.



## Appendix C: Custody arrangements

### Silver foil

Sometimes called silver or tin foil, this thin sheeting used for covering or wrapping things, in particular food, is actually made from aluminium.

## Custody arrangements

The law of trust imposes a fiduciary duty on trustees to safeguard assets and this has been reinforced by the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has appointed custodians to hold the assets, including cash, which make up the various quoted securities portfolios managed by the investment fund managers including RPMI Railpen. This is in accordance with the Pensions Act 1995 which requires trustees, rather than the employer or the fund manager or some other party, to make the appointment.

The custodians are responsible for the administration and safekeeping of the assets. Safekeeping can be defined as the preservation of assets under a system of control that ensures that assets are only released with proper authorisation, and that the custodian's clients' investments are legally segregated from those of the custodian.

Core administrative functions performed by the custodians include the following:

- settlement of transactions;
- registration and safekeeping;
- collection of income (dividends and interest) arising from investments;
- tax recovery;
- processing corporate actions, including proxy voting where applicable;
- reporting;
- cash management;
- foreign exchange; and
- appointing and operating through sub-custodians in overseas markets.

Other arrangements which seek to ensure asset safety, and to protect evidence of title, are in place for certain asset classes such as hedge funds and property. In the case of property, freehold and leasehold property is normally registered at HM Land Registry, where appropriate, and copies of all title documents are held by the Trustee's property lawyers.

In the case of investments managed by US fund of hedge fund managers, the Trustee has appointed BNY Mellon as the independent fund administrator to ensure that underlying hedge fund entitlements are properly monitored and accounted for, through effective and rigorous reporting and controls.

As part of the services provided to the Trustee, RPMI reviews the effectiveness of custody arrangements on a regular basis. This includes monitoring the efficiency of transaction settlement, income collection, tax recovery, foreign exchange performance and the appointment and management of overseas sub-custodians. The verification of assets is also conducted by reference to independent records held by the custodians. Great emphasis is placed on asset safety.

In addition, all custodians appointed by the Trustee are required to publish an AAF 01/06, ISAE 3402 or similar document in other jurisdictions. This is a report on the custodian's internal controls, which is made available to third parties, and is reviewed by the custodian's reporting accountant, in accordance with guidance issued by the Audit and Assurance faculty of the ICAEW in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or ISAE 3402 (formerly SAS70, as amended following the introduction of the Sarbanes-Oxley Act of 2002, the US equivalent issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ('AICPA') as a Statement on Auditing Standards).

Although not a regulatory requirement, this constitutes best practice and the Trustee will not appoint a custodian that does not produce a report of this type. These reports are reviewed by the Scheme's external auditors as part of their annual audit procedure.



## Appendix D: Sustainable Ownership

### **Silverback gorilla**

This name is given to adult male gorillas because of the silver fur that runs across their back and hips.

## Introduction

The Trustee, on behalf of the Fund, has a long history as an active and engaged shareholder, with a strong heritage in corporate governance. Trustees of UK occupational pension schemes are required by law to address in their SIP how they consider factors that are likely to have a financially material impact on investment returns, including environmental, social and governance (ESG) factors. This includes the policy directing the exercise of rights attached to investments including voting rights.

Sustainable Ownership is RPMI Railpen's approach to incorporating sustainability considerations into the investments we manage on behalf of our beneficiaries. This is underlined by the Trustees' related investment belief:

**'Environmental, social and governance factors materially impact long-term investment returns and must be taken into account'**

Our Sustainable Ownership activities span three key areas:

### 1. Integration in portfolio management

Our goal is to incorporate ESG considerations into the portfolios we manage on behalf our beneficiaries. We apply a Sustainable Ownership framework to our investment strategy, which considers the impact of extra-financial factors through four lenses:

- Improves investment returns;
- Reduces investment risk;
- Impacts the reputation of the Trustee as a responsible investor; and
- Impacts the world the beneficiaries of the Fund retire into.

We believe that incorporating these lenses into our investment process increases our chances of achieving our Mission to pay members' pensions securely, affordably and sustainably.

### 2. Active ownership

As a responsible asset owner, we believe that companies with robust corporate governance structures are more likely to achieve superior long-term financial performance and will manage their risks and opportunities effectively. Thoughtful voting alongside constructive engagement with portfolio companies supports our objective of enhancing the long-term investment returns for our beneficiaries.

We are proud supporters of the International Corporate Governance Network ('ICGN'), whose mission is to promote effective standards of corporate governance and investor stewardship worldwide. The eight ICGN Global Governance Principles serve as a primary standard for well-governed companies, and we have adopted these as the baseline for our global voting policy.

Our global voting policy reflects RPMI Railpen's three key voting and engagement themes:

- board composition and effectiveness;
- remuneration; and
- shareholder rights and disclosure.

RPMI Railpen is a lead participant in a range of investor networks, alliances and trade bodies, such as the UK Investor Forum. By working with other leading investors, including bondholders, we can exert more influence on the issues that we care about.

### 3. Longer term risks and opportunities

As long-term investors, we monitor risks and opportunities over the timeframe we will be paying members' pensions. We expect the companies we invest in to also take a long-term strategic view of potential risks and opportunities. Climate change remained a key focus area as well as governance and conduct themes.

## Pooled fund equity holdings

The largest ten direct equity holdings within the pooled fund investments as at 31 December 2019 were as follows:

	£m
Roche	211.23
Visa	178.72
Walmart	165.41
Nestle	153.50
Owl Rock	149.73
Procter & Gamble	144.81
Amgen	125.11
Mastercard	124.18
Pepsico	123.77
Merck & Co	118.67

More detail on our Sustainable Ownership activities can be found in our Sustainable Ownership Annual Report, which can be found at [www.rpmirailpen.co.uk/sustainable-ownership](http://www.rpmirailpen.co.uk/sustainable-ownership).

A photograph of several ornate silver teapots hanging on a black metal rack in a shop. The teapots are highly reflective and feature intricate designs, including floral and scrollwork patterns. The background shows a brick wall and a window. A blue banner with white text is overlaid in the top right corner.

## Appendix E: Risk statement

### Silverware

The tools we use to eat our food, including spoons, forks, and knives, are called silverware. Some silverware is actually made of silver, but silverware made of stainless steel is much more common these days.

The following risk management process operated throughout the year ended 31 December 2019.

### Risk policy

The Trustee has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk, and to implementing and maintaining control procedures to reduce significant risks to an acceptable level, taking note of the guidance and principles of the UK Corporate Governance Code issued in July 2018 and the guidance within the Pension Regulator's Code of Practice on Internal Controls.

The objective of the Trustee's risk policy is to limit the exposure of the Scheme, and the assets that it is responsible for safeguarding, to business, financial, operational, compliance and other risks. Implementation of the risk policy is delegated to the boards of the operating companies. The risk policy is reviewed regularly by management and annually by the Trustee and provides a framework for managing risk on a day-to-day basis.

### The risk policy covers all aspects of the Trustee operations and includes the use of third-party service providers.

The Trustee strongly encourages its investment managers to publish internal control assurance reports, (AAF 01/06, ISAE 3402 or equivalent style reports), on the effectiveness of internal controls, although investment managers are under no regulatory obligation to do so.

### Risk identification and management

Risks are identified and regularly reviewed by management and directors in a formal process. Risks are evaluated by considering the likelihood of occurrence and the significance of the consequent impact on the business if they occur.

The risks identified, together with action plans for their management (including responsibilities and target dates for completion), are recorded in the risk register of the Trustee and each operating company, RPMI and RPMI Railpen. Actions include implementing or adapting internal controls, risk transfer, risk sharing and contingency planning. These actions are monitored by the Business Assurance team.

The approach is based upon the 'three lines of defence' model as outlined below.

#### First line of defence:

This refers to the day-to-day controls that have been designed into systems and processes and the day-to-day line management and supervision that ensures compliance and identifies breakdowns or other unexpected events or errors. These processes are supported by documented policies and procedures or in some cases specific projects.

#### Second line of defence:

This describes the committees and functions that provide oversight of the effective operation of the internal control environment and will include those receiving reports and management information concerning key business activities, for example, the Senior Leadership Team and the Board. The second line is re-enforced by the monitoring functions of risk management through the RMC and the Compliance team.

#### Third line of defence:

This describes the independent assurance provided by internal audit, external audit and/or any other independent source of assurance, for example internal control reporting.

The effectiveness of the internal controls is examined by the internal audit plan, which focuses on the significant risks in the risk registers and covers all major activities of the Trustee and operating companies. The internal audit plan is approved annually by ARC. Internal audit output, in terms of any significant findings or risks identified, together with planned actions to mitigate them, are reported to the ARC.

In respect of the pensions administration service provided by RPMI, an internal controls assurance report has been prepared for the year ended 31 December 2019. The report sets out a description of the relevant control objectives and procedures which operated during the period. These have been independently evaluated under the guidelines of the International Standard on Assurance Engagements 3402 (ISAE 3402) and the ICAEW Technical Release, 'Assurance reports on internal controls of service organisations made available to third parties (AAF 01/06)'.

Internal audit services are provided to the Trustee by the in-house Business Assurance team. The Head of Business Assurance reports to the Chief Executive and has unrestricted access to the Chair of the ARC and the Trustee Board Chair should the need arise. Internal audit activity is governed by the Business Assurance Charter, which is reviewed annually by the ARC.

The Risk Management Committee is chaired by the Chief Financial Officer, RPMI, and includes representatives from the executive management of RPMI. Trustee Directors have an open invite to attend the meetings of the RMC. It meets regularly with the Business Assurance team and

external auditors in attendance, to consider the significant risks and assess how they have been identified, evaluated and managed, as well as the effectiveness of the internal controls associated with these significant risks.

As with any system of internal control, the Trustee's risk management process is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and therefore can only provide reasonable, not absolute, assurance against material misstatement.

A hand wearing a white glove holds a silver platter horizontally. The hand is part of a person wearing a dark suit jacket with four buttons visible on the cuff. The background is a solid dark red color.

## Appendix F: Summary of the main provisions of the Scheme

### **Silver platter**

If you're given something on a silver platter, it means without having been asked or sought for, or without requiring any effort or return from the recipient.

The RPS is a registered scheme under the Finance Act 2004. All railway employees are eligible to join the Scheme if allowed by their contract of employment.

Members of each of the sections of the Shared Cost and the DC Arrangements of the RPS were contracted-out of the S2P until the option to contract-out was abolished, which was from 6 April 2012 for DC schemes and from 6 April 2016 for defined benefit schemes. The IWDC Section has never been contracted-out of S2P.

### Rules specific to sections

A broad outline of the main provisions of sections that have adopted the Shared Cost Arrangement is given below. Each section's rules are available from RPM1 to members of that section upon request and are summarised in each section's Guide for Members booklet, which is available in the members' area of the Scheme's website.

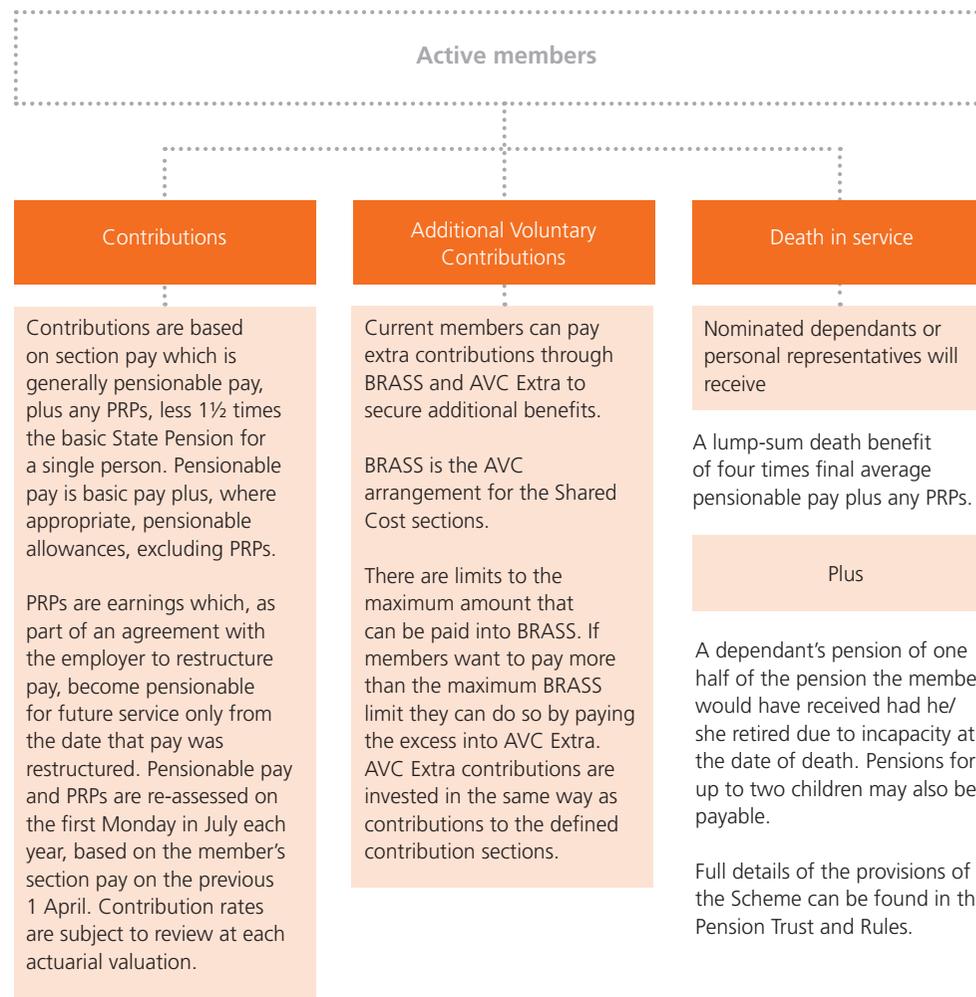
The outline of the main provisions of sections covers the standard situation whereby a section remains ongoing with a solvent employer backing the section. In the event of the employers in a section suffering a qualifying insolvency event, the benefits available from that section will depend on the assets in the section. If there are insufficient assets available to secure a minimum level of benefits, the PPF will pay compensation to members. In these situations, the PPF will take over the pension scheme's assets and provide the compensation to the scheme's members. The compensation provided by the PPF would in many cases be lower than the pensions that members could have received from the scheme that has been taken over.

### IWDC Section

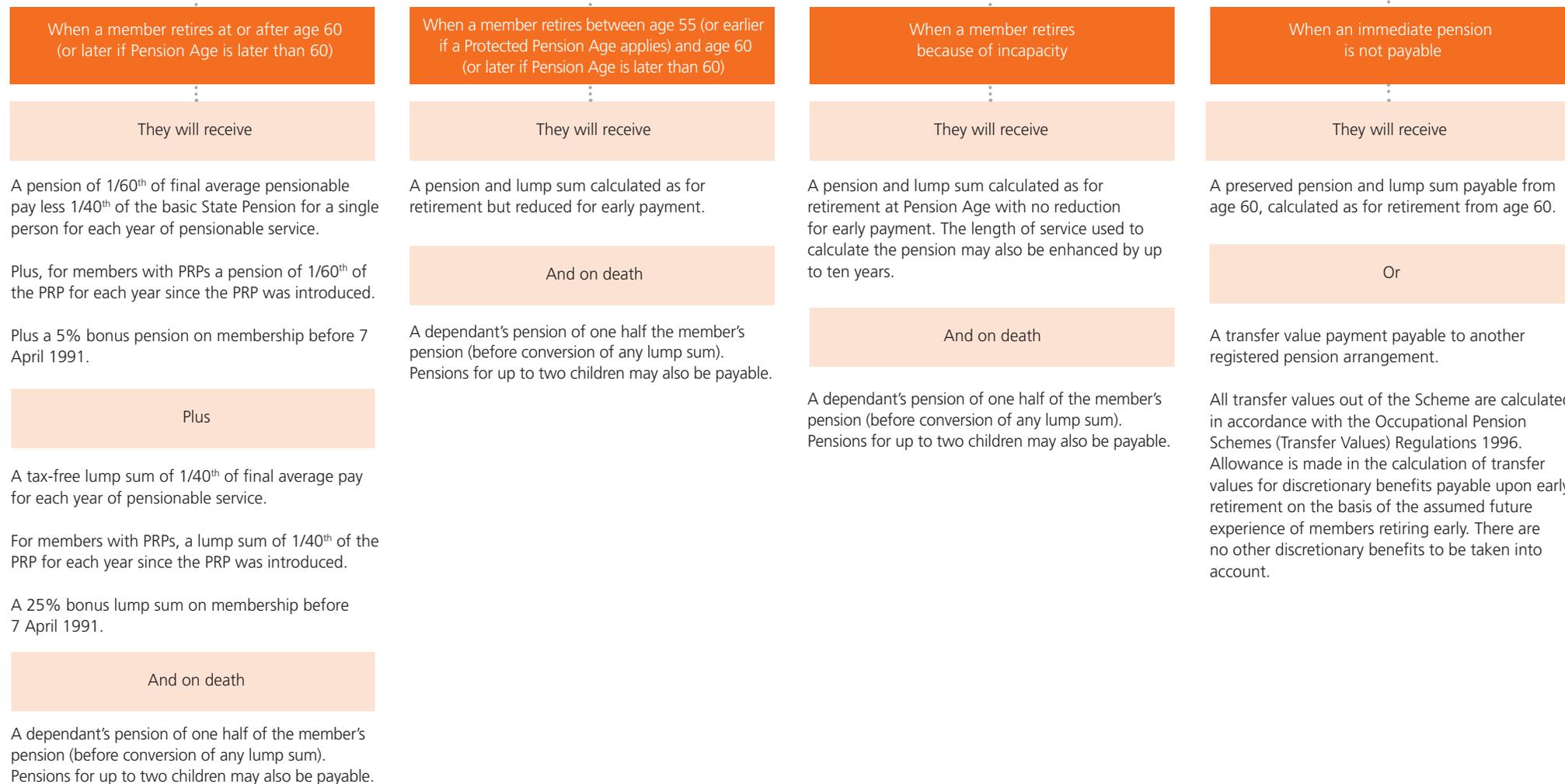
IWDC Section participating employers can choose their contribution rates, normal retirement date and amount of lump sum on death in service. Contributions range from upwards of 2% of pensionable pay, and retirement ages range from 60 to 65. Lump sums are either one times pensionable pay or four times pensionable pay on death in service. At retirement, members use their accumulated funds to provide an annuity purchased from an insurance company under an open market option, or they can transfer their funds to a specialist drawdown provider. They can also take tax-free cash up to the HMRC limit, or take 100% of their funds as a partially-taxed lump sum direct from the scheme. The remaining members within the DC Arrangement are all preserved pensioners.

### Pension increases

Pensions increased by 2.4% with effect from 8 April 2019. This is based on the CPI inflation figure, which measures changes in the prices of goods and services, as at September 2018. Pensions in payment and deferment in the Scheme are increased in line with Orders laid by the Government under the Pensions (Increase) Act 1971.



Leaving the Scheme





**Appendix G:  
Defined Contribution  
Chair's statement**

## **Silversmith**

The 18th-century silversmith was thought of as someone akin to a sculptor. Both had to know how to shape their materials with artistic talent, taste, and design.

This statement explains how the Trustee Board has met the legal requirements for running the Industry-Wide Defined Contribution Section of the Railways Pension Scheme ('the IWDC Section') in the year from 1 January 2019 to 31 December 2019 ('the Scheme Year').

### Funds for members who don't choose their investments (the 'default' investment arrangements)

The Trustee has chosen a default investment arrangement for members who have not chosen their own funds. Members can also choose to invest in the default arrangement, an alternative lifestyle arrangement or self-select from the investment funds offered. Currently more than 70% of members have some or all of their contributions invested in the default arrangement.

The Trustee has adopted the following investment strategy and investment objectives for the default arrangement:

- To generate long-term growth in excess of inflation over members' working lifetimes. The IWDC Section may be members' main form of retirement saving and so the default aims to seek growth while mitigating risk through diversification by investing in the Long Term Growth Fund. This Fund seeks to achieve returns similar to global stock markets over the longer term, but with lower volatility.
- To reduce investment risk for members as they approach retirement by switching to less volatile funds. For the funds in the IWDC Section this is achieved by automatic switching to bonds and cash over 10 years up to the member's target retirement age. The Trustee has assumed that members will draw 25% of their funds as a tax-free lump sum and buy an annuity with the rest.

The default arrangement for the IWDC Section is shown below:

DC Arrangement	Growth Portfolio	Portfolio at Target Retirement Age	Length of switching period
IWDC Section	100% Long Term Growth Fund	25% Deposit Fund 75% Aggregate Bond Fund	10 Years

There is more information about investment strategy in the Trustee's Statement of Investment Principles, which is included as Appendix 1 to this statement.

### Reviewing the default investment arrangements

A formal, in-depth review of the default arrangement is required under legislation at least every three years. The last formal review was completed by the Trustee's DC Committee (DCC) on 2 March 2017. This was a comprehensive review covering all the investment funds offered, including the investment strategy adopted for the default and alternative lifestyle arrangements.

The next formal review of the investment arrangements, including the default arrangement, is currently underway, and commenced at the DCC meeting on 3 September 2019. This review will be completed during 2020 and we will share the outcome of that review with you in next year's Chair's Statement.

In addition, the DCC conducted various interim reviews during the Scheme Year as follows:

- At each of its quarterly meetings during the Scheme Year (12 March 2019, 14 May 2019, 3 September 2019 and 10 December 2019), the DCC monitored the performance of the investment funds offered. This considered each fund's performance over various time periods to the previous quarter end. No issues were identified by the DCC as a result of this regular monitoring of performance.
- At its meeting on 12 March 2019, the DCC conducted an in-depth performance review of the investment funds offered, including those within the default arrangement. This included an assessment of the investment funds' performance against their investment objectives as well as against appropriate peers, where possible. The outcome of this review was that the DCC remains comfortable that the investment funds will continue to meet their investment objectives in the future.
- At its meeting on 14 May 2019, the DCC reviewed the membership of the IWDC Section. This review considered the demographic profile of the membership as well as the investment choices that they had made. No immediate changes were made as a result of this review, however the findings will be factored into the next formal review of the investment arrangements which is currently underway.

## Charges and transaction costs paid by members

The Trustee has taken account of statutory guidance when preparing this statement about charges and transaction costs. During the Scheme Year ending 31 December 2019 the level of charges applicable to the funds in the IWDC Section, including the funds which are part of the default lifestyle strategy, were:

DC fund	Annual management charge %	Property costs %	Total %
Long Term Growth Fund	0.45	0.08	0.53
Global Equity Fund	0.16	-	0.16
Deposit Fund	0.19	-	0.19
Aggregate Bond Fund	0.28	-	0.28
Index Linked and Global Bond Fund	0.32	-	0.32

The total cost of the default arrangement depends on where a member is in the glide path. Below are illustrations at various stages throughout the switching period:

Fund mix	Time to retirement years	Blended fund charge %
100% Long Term Growth Fund	10	0.53
60% Long Term Growth Fund 40% Aggregate Bond Fund	5	0.43
10% Long Term Growth Fund 70% Aggregate Bond Fund 20% Deposit Fund	1	0.29

RPMI Railpen, which manages the Scheme's investments, gives full transparency to the DCC on the underlying costs making up the annual management charges, such as investment management costs, legal costs, and IT costs. RPMI Railpen is also at the forefront in the pensions industry of obtaining full transparency from investment managers about costs in underlying investment funds (indirect costs) that the IWDC Section funds may invest in.

The IWDC Section funds are invested alongside the Scheme's defined benefit arrangements, using the same underlying pooled funds where possible. This means that IWDC Section members benefit from many of the same investment opportunities and cost controls as members of the defined benefit arrangements.

The Trustee also monitors the level of transaction costs incurred by the funds each year. Such costs include broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty.

It is not possible to obtain complete cost information in time for this statement as for certain asset classes this information is sought from annual reports and audited accounts of the underlying funds which have not yet been published. Transaction cost information has been requested from the asset managers before their accounts are published but not all of the managers had been able to supply the information by the date of signing this statement. The table below shows the transaction costs obtained for each fund, along with the percentage of the fund by asset value for which we have managed to obtain transaction cost information.

DC fund	Asset value £m	2019 transaction costs as % of assets under management	Proportion of fund for which information is available %
Long Term Growth Fund	50.6	0.04	85
Global Equity Fund	61.7	0.06	100
Deposit Fund	4.7	N/A	N/A
Aggregate Bond Fund	17.0	0.13	100
Index Linked and Global Bond Fund	2.6	0.00	100

RPMI Railpen continually reviews its processes for monitoring transaction costs. Having participated in the PLSA Cost Transparency Initiative pilot in 2018, we continue to use the newly developed cost templates to capture information from asset managers.

The Trustee minimises transaction costs arising from buying and selling assets, as far as possible, through the pooling arrangements within the railways pension schemes. Where it can, it matches members and sections that wish to sell units in a particular fund with those who wish to buy them, so it is not necessary to trade assets in the markets. There are strict policies and procedures in place to ensure that any trading costs are spread fairly between all IWDC Section members.

RPMI Railpen continues to make improvements to ensure that IWDC Section members get the best possible returns from their investments after all fees and transaction costs have been accounted for. The Trustee will continue to monitor the funds' costs and charges closely.

We are required to illustrate the cumulative effect of costs and charges on the value of members' fund values over time. There is a prescribed method for doing this, based on a 'representative' member of the IWDC Section. This illustration is included at Appendix 2 to this statement.

### Good value for members

In order to assess whether the IWDC Section offers good value for members, a review is performed each year. The annual review described below covers the period from 1 January 2019 to 31 December 2019.

The DCC agreed the assessment criteria at its meeting on 10 December 2019 and completed

the review at its meeting on 18 March 2020. The key areas for consideration were investment, administration, communications and governance.

The Trustee reviewed the level of charges in each fund and the investment returns delivered to members. We have also considered how the charges borne by members (the costs of membership) compare against the services and benefits provided by the DC arrangements (the benefits of membership).

The benefits of membership include, amongst other things:

- the design of the default arrangements and how they reflect the interests of members;
- the range of investment options and strategies;
- the efficiency of administration processes, and the extent to which RPMI, as administrator, met and exceeded its service level standards for the Scheme year;
- the quality of communications delivered to members; and
- the quality of support services and Scheme governance.

As part of assessing these items, we have obtained data and considered how some of these factors rated against other options available in the market. The latest CEM Benchmarking report, published in February 2020, was used to facilitate this review. The CEM Benchmarking report is a comprehensive benchmarking report that compares service levels, costs, volumes and staffing levels in total and by activity to similar companies. In addition, the Trustee agrees internal policies for communication strategies and investment objectives, and the assessment compared these agreed policies with what had been achieved in 2019. In terms of reviewing the governance arrangements of the scheme the Trustee met the Pensions Regulator's authorisation and supervision regime criteria

introduced by the Pension Schemes Act 2017 and the Occupational Pension Schemes (Master Trusts) Regulations and the IWDC Section became an authorised master trust on 2 August 2019.

These key areas are reviewed independently and collectively to determine the appropriate rating for the assessment.

Another important area of consideration is the ease and ability by which members can view or make changes to their investments. RPMI offers members a secure online portal, [www.railwayspensions.co.uk](http://www.railwayspensions.co.uk), to provide a secure personal online account for all DC active members who register for this service. The account provides members with an overview of their investment holdings, the ability to view recent contributions (both member and employer) and the ability to move their investments between different funds. A new portal, with improved functionality for members, is being rolled out to members. This roll-out started in 2019 and will be completed in 2020.

Based on our assessment, we concluded that the IWDC arrangement represents 'good' value for members, with the main reason being the obtaining of Master Trust authorisation. The possibility of awarding a rating of 'very good' was considered, to reflect the factors associated with Master Trust authorisation, but a 'good' rating was considered more appropriate to reflect the delay with the continuing administration enhancements, which are not yet available to members. Where areas for improvement have been identified, plans are already in place to make the necessary changes. This reflects the commitment of both RPMI and RPMI Railpen to continuous improvement on behalf of the Trustee and Scheme members.

### Processing core financial transactions

The Trustee must ensure that core financial transactions are processed both promptly and accurately. These include:

- investing contributions;
- transfer of members' assets to and from the Scheme, and between sections within the Scheme;
- switching between investments within the Scheme; and
- payments out of the Scheme to members and beneficiaries.

Service Level Agreements ('SLAs') are in place for all of these core financial transactions, ranging from two to five working days. The DCC received a DC specific administration report from RPMI every quarter during the Scheme Year setting out whether these SLAs were achieved. Within the administration report there is narrative which highlights any core financial transaction issues to the Trustee. Where necessary ad-hoc reports are commissioned so the DCC can review the progress of any issues raised. Following on from work completed in 2018, the DCC continued to receive additional reports pertaining to the volume of DC contributions held in suspense during 2019. This was to provide oversight of the continued improvement in this area. As at the end of the Scheme Year there were no unresolved issues reported.

Additionally the DCC monitors RPMI's performance and ensures that improvements to processes and controls are implemented where necessary. The DCC monitors this through the provision of the annual Internal Control Assurance Report issued by RPMI, which is available on their website. This report outlines specific control procedures and independently demonstrates the strength of these controls.

## Trustee Knowledge and Understanding ('TKU')

RPMI runs a comprehensive induction programme for new Trustee Directors which ensures that they have good awareness and understanding of the scheme's governing documentation (including the trust deed and rules, statements of investment principles and funding principles, and relevant policies), scheme funding and investment, pensions and trust law and the role of a trustee. Individuals who have been nominated to become a Trustee Director must complete the Pensions Regulator's Toolkit before they can be appointed as a Trustee Director of the Railways Pension Scheme and this process was completed for two Trustee Directors who were appointed in 2019. The Trustee Toolkit is an online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes. The toolkit includes a series of online learning modules and downloaded resources developed to help trustees meet a minimum level of knowledge and understanding introduced by the Pensions Act 2004. There is also a requirement for Trustee Directors to refresh the Trustee Toolkit every three years.

In addition to all Trustee Directors having completed the Pensions Regulator's Trustee Toolkit, eleven out of sixteen Trustee Directors hold the Pensions Management Institute's Award in Pension Trusteeship, providing formal recognition of these Trustee Directors' knowledge and understanding.

Existing Trustee Directors receive regular training throughout the year, either at quarterly Trustee or Committee meetings, three training workshops or at the strategy day which Directors attend each year. They are also encouraged to attend external conferences and seminars on specific topics of interest and to increase their general knowledge and understanding.

To further ensure the Trustee meets the required level of knowledge and understanding introduced by the Pensions Act 2004, the Trustee Directors must complete a training needs analysis each year and this was completed in Q1 2019. The analysis is based on the Pensions Regulator's indicative Trustee Knowledge and Understanding syllabus. This is used to assess training needs for the year ahead by identifying particular areas where knowledge is less strong for individuals and for the Board as a whole. Alongside this, the Trustee compiles a skills matrix to detail the relevant skills and experience of each member of the Trustee Board. Together, these demonstrate the strength and depth of expertise that each is able to bring to the role. The annual review of the skills matrix ensures that any gaps are identified and that the necessary additional training and development is undertaken by the relevant Trustee Director. The particular topics identified for further training are built into the training provided by RPMI and also third parties at the Trustee's meetings and workshops throughout the year.

The Trustee Directors all have good knowledge of the Scheme's trust documentation, the latest Statement of Investment Principles, pensions and trust law, and the principles of pension funding and investment. This is evidenced by the latest completed training needs analysis and supplemented by training for Trustee Directors.

During the Scheme Year, RPMI gave training for Trustee Directors on:

- The approach to the 2019 RPS valuation
- Risk and success
- Effective Chairing Skills
- Diversity and inclusion

In addition to this, members of the DCC were provided with training on:

- The compliance regime for authorised master trusts;

- Developments relating to pension freedoms and choice; and
- The wider master trust market.

These topics were identified as appropriate training based on the 2019 training requirements and skills analysis review or were requested on an ad-hoc basis by the Trustee.

The Trustee provided a response to the Pension Regulator's consultation on the future of trusteeship and governance in September 2019.

The Trustee Directors completed meeting effectiveness questionnaires after each full Trustee Board or Trustee Committee meeting in 2019. Members of the in-house Trustee Governance team discuss the responses with the relevant Chair to seek to improve the operation and running of Trustee meetings.

The Trustee Board is made up of a wide range of Trustee Directors who each possess individual skills and experience that are relevant to the role of Trustee of a Master Trust like the IWDC Scheme. The Trustee Board is diverse in employment experience and history. Many are long standing Trustee Directors and have served on several of the Trustee's committees and subsidiary boards over the years, including Benefits and Funding, Investment, Defined Contribution, Audit & Risk, Railpen and RPMI. They therefore have significant experience of all aspects of the Railways Pension Scheme and its corporate management activities, and this is spread across the whole board rather than concentrated in one or two individuals. The Trustee Directors have a wide range of experience, from working as Pensions Managers for employers in the rail or other large scale industries, to senior financial professionals with large employers. A number of Trustee Directors have a background in trade unions. Many worked on their unions own schemes and negotiated with employers on pensions and benefits on behalf of their members.

The Trustee Board is therefore sufficiently diverse to ensure challenge and accountability between Trustee Directors, and their collective business and senior management experience will ensure that they are in a position to challenge robustly the advice they receive. In particular, through the trade union representatives, the Board gains insight into the membership's perspective of how the scheme is run and the benefits it offers.

As a result of the training activities which the Trustee Directors have completed, individually and collectively as a Board, the broad range of experience held by Trustee Directors and the annual training analysis, skills matrix review and effectiveness reviews, I am confident that the combined knowledge and understanding of the Board, together with the professional advice available to it, enables it to exercise properly its functions as the Trustee of the IWDC Section of the Railways Pension Scheme and the Railways Pension Scheme generally.

## Additional governance requirements for multi-employer schemes

The Occupational Pensions Scheme (Scheme Administration) Regulations 1996, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 ('the Administrative Regulations'), require the Trustee Board of any 'relevant multi-employer scheme' to have a majority of 'non-affiliated trustees', including the Chair.

From April 2016, the Trustee has been required to comply with this additional governance standard. This additional governance standard is designed to offer additional protections for members and ensure that the Trustee acts in their best interests.

The Trustee Board has considered these requirements and determined that all Trustee

Directors, including the Chair, can be classed as 'non-affiliated trustees' for the purpose of the legislation. This means that we have considered carefully any links that Trustee Directors may have with companies providing services to the Scheme, and reviewed the procedures in place for managing any conflicts of interest that may arise and concluded that all of the Trustee Directors are independent of any undertaking which provides advisory, administration, investment or other services in respect of the IWDC Section, taking account of the matters set out in Regulation 28(3) of the Administration Regulations. We have also reviewed our appointment process to ensure that it is open and transparent and allows representation on the Trustee Board from across the rail industry. We will ensure that non-affiliated Trustee Directors, including the Trustee Chair, are always in the majority on the Trustee Board.

Two non-affiliated, Trustee Directors were appointed during the Scheme Year, in accordance with the governing documents of Railtrust Holdings Limited:

- Nominations were sought from all the relevant organisations (including Trade Unions and Pensions Committees as appropriate) as part of the Scheme's process for appointing an Employee Director vacancy in the Pensioner electoral group. There was only one nomination and so Peter Holden was appointed to the Trustee Board.
- Nominations were sought from all the relevant organisations (including Trade Unions and Pensions Committees as appropriate) as part of the Scheme's process for appointing an Employer Director vacancy in the Passenger Train Operating Companies electoral group. Following a ballot exercise Richard Murray was appointed to the Trustee Board.

The appointment of the Employee Director vacancy met the requirements of the Pension Act 2004 for the nomination and selection of Member Nominated Directors.

The Trustee Board has been kept informed of developments relating to the Pensions Regulator's authorisation and supervision regime introduced by the Pension Schemes Act 2017 and the Occupational Pension Schemes (Master Trusts) Regulations 2018. The IWDC Section of the Railways Pension Scheme submitted its application in March 2019 and became an authorised master trust on 2 August 2019.

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### Contacting the Trustee Board

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The Trustee Board encourages Scheme members to share their views about the Scheme, the benefits it offers, the investment options available, and their plans for how they intend to use their funds to provide an income in retirement.

IWDC active and preserved members receive the annual Insight newsletter in May each year. The newsletter provided to members in 2019 encourages members to provide feedback via an online survey using a QR code to direct members to the feedback facility. A dedicated online member advisory group has also been established, and promoted through the periodic newsletters and website, giving members the chance to share their views on key topics. This insight is reported to the Trustee and directly shapes the development of member communications.

Alternatively, if members prefer they can contact the member Helpline on the free phone number **0800 012 1117**. The annual newsletter and bulk member communications refer to the helpline number as standard.

Additionally many Trustee Directors also have regular contact with members through their day-to-day activities, for example as Pensions Managers of participating employers or as Trade Union officials. The Trustee have considered the size, nature and demographics of the Scheme and by providing multiple channels and media through which members may contact the Scheme, in line with its Communications Strategy, the Trustee is satisfied that all members from all sections of the Scheme are encouraged to share their views, in particular in response to key communications or Scheme events.



**Christopher Hannon**  
Chair, Trustee Company

19 May 2020

# Silver jewellery

In ancient Egypt, silver was valued much more highly than gold.



## Appendix 1: Statement of Investment Principles

### Introduction

1. Railways Pension Trustee Company Limited is the trustee body for the railway pension schemes listed in Schedule 1 ('the Schemes') and for each separate Section within the Railways Pension Scheme (a 'Section').
2. The Trustee has, following consultation with the employers, drawn up this SIP to comply with the requirements of the Pensions Act 1995 (as amended) and subsequent legislation, including The Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has received written advice from the Trustee's wholly owned subsidiary RPMI Limited before adopting this SIP.

### Responsibilities and Process

3. The Trustee is responsible under the Pensions Act 1995 for determining the overarching investment principles used across the Schemes. These are outlined in this document. Investment strategy for each Scheme and Section is set taking account of, amongst other factors, the specific liability profile of that Scheme or Section. The Trustee has a sub-committee, the Integrated Funding Committee ('IFC'), responsible for carrying out this work. The performance objectives and asset allocation strategies for each Scheme and Section are included in their respective individual Investment Policy Document.

4. In the case of Sections where the employer has elected to establish a 'Pensions Committee', and those Schemes where a Management Committee has been established, the power to set investment strategy lies with the committees (with the exception at the time of adoption of this SIP, of the British Transport Police Force Superannuation Fund, RPS Govia Thameslink Railway Section and RPS London Overground Section). In the case of these committees, the Trustee retains legal responsibility for implementation of investment policy and ensuring that any policy adopted and set out in the relevant Investment Policy Document complies with the statutory requirements. This function has been delegated in turn by the Trustee to RPMI.
5. The SIP is reviewed following each triennial actuarial valuation and following any significant change in investment principles of the Schemes. The Trustee will consult with the relevant employers about any changes to the SIP. However, the employers have agreed that where changes are proposed to any specific Investment Policy Document, the Trustee only needs to consult with the employers which participate in the Scheme or Section to which that Document relates.
6. The Trustee has agreed core beliefs that set out a clear view on investment philosophy and Scheme governance. These beliefs are used to inform the investment process used across the Schemes.
7. The Trustee's mission is to pay members' pensions securely, affordably and sustainably. It achieves this through investing the assets of each Scheme and each Section in a way that enables them to be used to pay the benefits promised when they fall due, whilst balancing this against the cost that must be met by the employers and members.
8. To facilitate achieving this objective, the Trustee adopts an integrated approach to covenant, funding and investment policy. Due to the different maturity profiles of the liabilities of the individual Schemes and Sections, along with the strength of covenant of each sponsoring employer and any other specific characteristics, investment strategies and therefore expected investment returns will vary widely. Investment objectives therefore have to be set separately for each Scheme and Section, with a consistent framework used for evaluation. The agreed approach takes account of return, risk and liquidity requirements (within a 'RRL framework'), to enable suitable investment strategies to be adopted for each Scheme and Section.
9. The RRL framework outlines the expected investment strategy for each Scheme and broad Section groupings (effectively grouped by covenant strength and maturity profile). The individual components of the RRL framework are considered as follows:
  - 9.1. Expected investment return is considered taking into account risk and affordability, making use of the pooled fund range to accommodate individual Scheme and Section requirements. The expected return of the proposed investment strategy is judged over the long-term and evaluated with reference to the financial assumptions adopted by the Trustee. The technical provisions funding basis used in triennial valuations is considered with reference to these expected returns;
  - 9.2. Investment risk is considered using several measures with a focus on downside risk, consistent with the Trustee's belief that investment risk is multi-faceted. The level of investment risk will take account of the strength of covenant;
  - 9.3. Liquidity requirements are evaluated with reference to maturity, the strength of covenant of the sponsoring employer and whether the Scheme or Section is deemed open or closed to new members.
10. The resultant portfolios and investment strategy for each Scheme and Section are expressed as a mix of return-seeking, defensive and matching assets. Each of these portfolios, in aggregate, is expected to generate a long term return that will match or exceed the discount rates used in the funding assumptions for the respective Scheme or Section.

### Management of Pooled Funds

11. The Schemes and Sections invest in a number of HMRC approved pooled funds (the 'pooled funds') operated by RPMI on behalf of the Trustee. These funds are used to construct each investment portfolio agreed under the RRL framework and are intended to accommodate the differing investment requirements of the Schemes and Sections.
12. As such, each pooled fund has distinct return, risk and liquidity characteristics and is either multi-asset or single-asset class by design. The Trustee recognises that the use of a range of traditional and alternative asset classes with distinct return drivers may offer diversifying characteristics. Accordingly, the default offering is to use predominantly multi-asset pooled funds which invest in a wide range of assets and strategies. However, Pensions Committees and/or employers can request to make use of other pooled funds offered by the Trustee consistent with the agreed investment strategy. The investment performance of each pooled fund is measured against an agreed objective and the objective and investment guidelines for each pooled fund are set out in the individual fund product particulars.

13. Under the RRL framework, the proportion of the Scheme or Section assets to be held in a particular pooled fund is not fixed and may, therefore, be changed from time to time by the Trustee (or RPMI under delegated authority) in order to comply with the RRL framework in the manner the Trustee considers appropriate. Where the rules of a Scheme or a Section require the investment policy to establish the proportion of Scheme or Section assets to be held in each of the pooled funds, that policy will be recorded in the relevant Investment Policy Document.
14. The Trustee regularly reviews the pooled fund range and is free to change the range of pooled funds, the associated objectives and investment guidelines from time to time, as it considers appropriate, in accordance with the rules of the Schemes.
15. The investment of the assets within each pooled fund is delegated under an Investment Management Agreement to a wholly owned subsidiary of the Trustee, Railway Pension Investments Limited ('RPMI Railpen') or to fund managers appointed by RPMI Railpen (together the 'Fund Managers'). The investment arrangements are overseen by the Railpen Investment Board ('RIB').
16. The multi-asset pooled funds are managed within a strategic framework, agreed on a regular basis with the RIB. The single-asset pooled funds are managed to specific objectives with permitted tolerances. Where relevant, RPMI Railpen and the Fund Managers are responsible for deviations from agreed asset allocations within delegated authority limits. Active management is not used by default but will be considered when it is judged to be the most efficient implementation of a given strategy.

17. RPMI Railpen and the Fund Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and product particulars. This includes the power to rebalance funds from available cash or make transfers in order to keep within stipulated asset allocations or restrictions.
18. In addition to the pooled funds, the Schemes and Sections may invest assets with an insurance company regulated by the Prudential Regulation Authority in order to accomplish a transfer of risk.

#### Performance Measurement

19. The performance of each Scheme and Section, and the investment performance of the portfolios of RPMI Railpen and the Fund Managers, are measured for the Trustee. Also, investment performance of each Scheme and Section are monitored by RPMI and reported to the IFC, the Pensions Committees (where appropriate) and the relevant employers. RIB monitors the performance of RPMI Railpen and the Fund Managers against long-term performance objectives and compliance with operating parameters.

#### Risk Management

20. The Trustee recognises that there are various investment and operational risks to which any pension scheme is exposed, and gives qualitative and quantitative consideration to such risks. A number of steps are taken to manage such risks including:
  - 20.1. an Integrated Funding Committee with specific responsibilities including agreeing integrated funding plans for each Scheme and Section, using the RRL framework (as described in paragraphs 8, 9 and 13), and monitoring performance against their agreed funding plans;
  - 20.2. an Audit and Risk Committee with specific responsibilities including review of financial control and risk management systems;
  - 20.3. appointing a global custodian to hold assets and RPMI monitoring the custodian's service provision and credit worthiness;
  - 20.4. appointing the Railpen Investment Board (RIB) with specific responsibilities including oversight of the management of the pooled funds;
  - 20.5. the establishment of the Investment Business Risk Committee to oversee monitoring of investment and operational risks.

#### Additional Assets

21. The Trustee is responsible for providing appropriate fund choices for the investment of defined contribution ('DC') assets. This includes members' additional voluntary contributions ('AVCs') and contributions in respect of members of the defined contribution schemes ('DC Schemes') including the Industry-Wide Defined Contribution Section ('IWDC') and the Defined Contribution Arrangement.
22. The range of funds made available for the DC fund arrangements is reviewed regularly and may be changed by the Trustee from time to time in accordance with applicable rules of the Schemes. The intention is to ensure an investment philosophy consistent across both defined benefit and defined contribution arrangements to the extent possible.
23. Further information on AVC Funds can be found in Schedule 2 and further information on DC Schemes can be found in Schedule 3.

#### Costs

24. The Trustee recognises that strict control of costs is important in contributing to good investment returns. As such, RPMI and RPMI Railpen are asked to ensure that all aspects of cost from the responsibilities and mandates exercised by those involved in the investment process, both internal and external, are kept under regular review. The aim is to implement Scheme and Section strategy in the most efficient manner possible, using internal resources wherever appropriate. Investments within the pooled funds are considered in terms of the most efficient way to access desired return drivers. As part of this process, fees payable to external Fund Managers and costs relating to the investment, management, custody and realisation of pooled fund assets are kept under regular review.

### Environmental, social and governance considerations

25. The Trustee recognises its legal duty to consider factors that are likely to have a financially material impact on investment returns over the period during which benefits will need to be funded by the Schemes' investments.
26. These factors include, but are not limited to, environmental, social and governance (ESG) factors, including, but not limited to climate change.
27. The Trustee expects RPMI Railpen and Fund Managers to take account of ESG factors in the selection, retention and realisation of investments. In addition, RPMI Railpen takes into account the Fund Managers' policies in relation to ESG factors when selecting Fund Managers and also monitors Fund Managers' compliance with such policies.
28. The Trustee will continue to monitor and assess ESG factors and the risks and opportunities arising from them, as follows:
- 28.1 the Trustee will undertake annual training on ESG considerations in order to understand fully how ESG factors including climate change could impact investments;
- 28.2 the Trustee will require RPMI Railpen and Fund Managers to provide information annually about their ESG policies and how they integrate ESG into their investment processes.

### Non-financial matters

29. The Trustee will consider factors that are expected to have a material financial impact on investments. Non-financial matters may be considered on a case-by-case basis in relation to the selection, retention and realisation of investments where the Trustee has reasonable cause to believe that scheme members would share concerns that such matters would have a materially detrimental impact on the good reputation of the Schemes and potentially lead to a material risk of financial detriment to the Schemes.
30. The Trustee will review its policy on non-financial matters in conjunction with its regular review of the SIP.

### Voting and Engagement Policy

31. The Trustee believes that companies with robust corporate governance structures are more likely to achieve superior long-term financial performance and will manage their risks and opportunities effectively. It signals its expectations to companies through RPMI Railpen's voting and engagement activities.
32. RPMI Railpen's global voting policy sets out expectations for issuers, and may be read in conjunction with other market specific guidance, also available on RPMI Railpen's website. Thoughtful voting alongside constructive engagement with portfolio companies supports the Trustee's investment objectives.
33. RPMI Railpen, on behalf of the Trustee, is a signatory to the UK Stewardship Code, and engages with its external Fund Managers to encourage them to adopt practices in line with the spirit of this Code as appropriate.
34. The Trustee expects RPMI Railpen to:
- 34.1 exercise rights attaching to investments and to undertake engagement activities in accordance with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code;
- 34.2 select Fund Managers which have appropriate ESG policies and to monitor their compliance with those policies;
- 34.3 evaluate all financially material considerations, including ESG factors (including, but not limited to, climate change) as part of the decision-making process around its stewardship activities;
- 34.4 provide, at least annually, details of its ESG policies and stewardship activities and those of Fund Managers.
35. The Trustee's delegation to RPMI Railpen of the exercise of rights attaching to investments and engagement activities includes the delegation of the functions of engaging with and the monitoring of relevant persons about relevant matters. Therefore, these functions should be exercised in circumstances that are consistent with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code.
36. The Trustee expects RPMI Railpen to update the Trustee periodically (and at least annually) on its ESG policies and its stewardship activities and on those of Fund Managers.






**Adopted by the Trustee on 18 September 2019  
Consultation with employers completed  
28 October 2019**

## Schedule 1

### Railways Pension Schemes

This Schedule lists the Schemes for which the Railways Pension Trustee Company Ltd (RPTCL) is 'The Trustee':

Railways Pension Scheme (RPS)  
British Railways Superannuation Fund (BRSF)  
British Transport Police Force Superannuation Fund (BTPFSF)  
BR (1974) Fund

## Schedule 2

### Additional Voluntary Contribution (AVC) Funds

#### 1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles ('SIP') adopted by the Railways Pension Trustee Company Limited ('the Trustee'), as amended from time to time.

The main AVC arrangement is open to all contributing members of the Railways Pension Scheme (defined benefit Sections) and is known as BRASS. It is also open to members of the British Transport Police Force Superannuation Fund who joined before 1st April 2007 and eligible members of the British Railways Superannuation Fund.

AVC Extra is the second contribution top-up arrangement for contributing members of the Railways Pension Scheme (defined benefits sections other than the Network Rail Section) and members of the British Transport Police Force Superannuation Fund who joined before 1st April 2007.

## 2. Objective

The Trustee recognises that individual members have differing investment needs and these may change during the course of their working lives. It also recognises members have differing attitudes to risk.

The overall objective of the Trustee is to provide a range of funds suitable for members to invest their AVC contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option.

In setting the range of investment options, the Trustee considered member's objectives as being defined by the expected:

- Level of outcome (long-term return)
- Variability of outcome (long-term risk)
- Volatility of journey, in particular as the member's target retirement age approaches (short-term risk)

## 3. Investment strategy

The Trustee considered a range of asset classes and associated expected returns and volatility of returns, the suitability of styles of investment management, and the need for diversification. The suitability of various lifestyle arrangements was also taken into account in setting the lifestyle and default strategies.

After taking advice, the Trustee has made lifestyle options available to members, matching various degrees of risk. These options offer a changing investment programme designed to meet a typical member's perceived changing financial needs as they move through their working life and approach retirement. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age.

One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range. The default lifestyle option is designed to be appropriate for a typical member with a predictable target retirement age.

The Defined Contribution Committee of the Trustee Board was established to ensure appropriate management and governance of the BRASS, AVC Extra, and DC Schemes' arrangements. Specific responsibilities of the Committee include oversight of investment performance and reviewing communications and investment options as appropriate.

## 4. Fund choices

The following funds are available to all BRASS and AVC Extra members:

- Long Term Growth Fund
- Global Equity Fund
- Aggregate Bond Fund
- Index Linked and Global Bond Fund
- Deposit Fund

The BRASS and AVC Extra arrangements also offer two lifestyle options:

- Long Term Growth Lifestyle (the default option for BRASS)
- Global Equity Lifestyle (the default option for AVC Extra)

The fund range is provided through a 'white-labelled' framework to help accommodate underlying manager changes and future enhancements without undue disruption. Within this structure the Trustee considers suitable pooled funds managed by RPMI Railpen where possible.

Certain AVC members may also have holdings in the Pension Assured Fund ('PAF'). However, it is noted that this Fund is not accepting new contributions.

The Trustee expects the long-term return on the Long Term Growth Fund and Global Equity Fund to exceed price inflation. The long-term returns on the bond and deposit funds are expected to be lower. However, the bond funds are expected to more closely match the price for annuities, giving some protection in the amount of secured pension for members closer to retirement. The Deposit Fund is expected to provide protection against changes in short-term nominal capital values, and may be appropriate for members close to their target retirement age that plan to receive part of their retirement benefits in the form of tax-free cash.

## 5. Fund annual charges

The Fund Managers, RPMI Railpen and RPMI levy a charge on each fund, calculated by reference to the market value of assets under management. These charges are levied on each member's investments and the members incur these fees. They may vary depending on the fund chosen and manager performance, however they are considered by the Trustee to be reasonable.

## 6. Risks

There are a number of risks within the BRASS and AVC Extra arrangements including:

- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation although this is not guaranteed over any given period;

- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;

- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;

- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investment Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis;

- Risk of inappropriate member decisions. This is addressed by:
  - making a default option available which the Trustee believes appropriate for the majority of members;
  - regular member communications; and
  - recommending members seek guidance and independent financial advice where appropriate.

The Trustee also reviews these risks as part of each formal strategy review. These take place at least every 3 years or more frequently if appropriate.

**Note:** Further information and factsheets for the BRASS and AVC Extra funds can be found on the Railway Pensions website [www.railwayspensions.co.uk](http://www.railwayspensions.co.uk).

## Schedule 3

### Defined Contribution Schemes

#### 1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles ('SIP') adopted by the Railways Pension Trustee Company Limited ('the Trustee'), as amended from time to time.

The defined contribution schemes ('DC Schemes') are the defined contribution (also known as 'money purchase') pension arrangements of the Railways Pension Scheme for rail industry employees. They include the Industry-Wide Defined Contribution Section and the Defined Contribution Arrangement.

#### 2. Objective

The Trustee recognises that individual members have differing investment needs and these may change during the course of their working lives. It also recognises members have differing attitudes to risk.

The overall objective of the Trustee is to provide a range of funds suitable for members to invest their contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option.

In setting the range of investment options, the Trustee considered member's objectives as being defined by the expected:

- Level of outcome (long-term return)
- Variability of outcome (long-term risk)
- Volatility of journey, in particular as the member's target retirement age approaches (short-term risk)

#### 3. Investment Strategy

The Trustee considered a range of asset classes and associated expected returns and volatility of returns, the suitability of styles of investment management, and the need for diversification. The suitability of various lifestyle arrangements was also taken into account in setting the lifestyle and default strategies.

After taking advice, the Trustee has made lifestyle options available to members, matching various degrees of risk. These options offer a changing investment programme designed to meet a typical member's perceived changing financial needs as they move through their working life and approach retirement. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age.

One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range. The default lifestyle option is designed to be appropriate for a typical member with a predictable target retirement age. To ensure an appropriate level of diversification of the asset classes, the default lifestyle option utilises a diversified growth fund.

The Defined Contribution Committee of the Trustee Board was established to ensure appropriate management and governance of the BRASS, AVC Extra, and DC Schemes' arrangements.

Specific responsibilities of the Committee include oversight of investment performance and reviewing communications and investment options as appropriate.

#### Fund choices

The following funds are available to all members of DC Schemes:

- Long Term Growth Fund
- Global Equity Fund
- Aggregate Bond Fund
- Index Linked and Global Bond Fund
- Deposit Fund

The DC Schemes arrangements also offer two lifestyle options:

- Long Term Growth Lifestyle (the default option)
- Global Equity Lifestyle

The fund range is provided through a 'white-labelled' framework to help accommodate underlying manager changes and future enhancements without undue disruption. Within this structure the Trustee considers suitable pooled funds managed by RPMI Railpen where possible.

The Trustee expects the long-term return on the Long Term Growth Fund and Global Equity Fund to exceed price inflation. The long-term returns on the bond and deposit funds are expected to be lower. However, the bond funds are expected to more closely match the price for annuities, giving some protection in the amount of secured pension for members closer to retirement. The Deposit Fund is expected to provide protection against changes in short-term nominal capital values, and may be appropriate for members close to their target retirement age that plan to receive part of their retirement benefits in the form of tax-free cash.

#### 4. Fund annual charges

The Fund Managers, RPMI Railpen and RPMI levy a charge on each fund, calculated by reference to the market value of assets under management. These charges are levied on each member's investments and the members incur these fees. They may vary depending on the fund chosen and manager performance, however they are considered by the Trustee to be reasonable.

#### 5. Risks

There are a number of risks within the DC Schemes' arrangements including:

- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation, although this is not guaranteed over any given period;
- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;
- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;
- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investment Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis;

- Risk of inappropriate member decisions. This is addressed by:

- making a default option available which the Trustee believes appropriate for the majority of members;
- regular member communications; and
- recommending members seek guidance and independent financial advice where appropriate.

The Trustee also reviews these risks as part of each formal strategy review. These take place at least every 3 years or more frequently if appropriate.

**Note:** Further information and factsheets for the DC Schemes' funds can be found on the Railway Pensions website [www.railwaypensions.co.uk](http://www.railwaypensions.co.uk).

### Illustration of cumulative effect of costs and charges on the value of members' fund values over time

The effect of costs and charges for each of the funds that is open to new contributions is provided in the table below:

Years	Long Term Growth Fund		Global Equity Fund		Aggregate Bond Fund		Index Linked and Global Bond Fund		Deposit Fund	
	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£7,618	£7,581	£7,572	£7,560	£7,358	£7,339	£7,342	£7,325	£7,296	£7,285
3	£13,274	£13,110	£13,073	£13,019	£12,161	£12,082	£12,097	£12,024	£11,909	£11,862
5	£19,529	£19,159	£19,075	£18,955	£17,083	£16,916	£16,948	£16,794	£16,551	£16,452
10	£38,138	£36,819	£36,523	£36,106	£29,934	£29,418	£29,517	£29,042	£28,307	£28,010
15	£61,765	£58,675	£57,992	£57,031	£43,613	£42,559	£42,761	£41,798	£40,324	£39,734
20	£91,551	£85,549	£84,239	£82,408	£58,184	£56,395	£56,736	£55,113	£52,658	£51,685
25	£128,881	£118,415	£116,159	£113,025	£73,715	£70,986	£71,504	£69,045	£65,368	£63,925
30	£175,445	£158,425	£154,804	£149,803	£90,282	£86,397	£87,131	£83,656	£78,516	£76,517
35	£233,292	£206,941	£201,410	£193,815	£107,964	£102,697	£103,689	£99,011	£92,165	£89,527
40	£304,911	£265,576	£257,429	£246,311	£126,845	£119,960	£121,252	£115,180	£106,382	£103,022
45	£393,327	£336,233	£324,569	£308,744	£147,019	£138,267	£139,904	£132,236	£121,237	£117,073

The effect of costs and charges for the default arrangement is also provided:

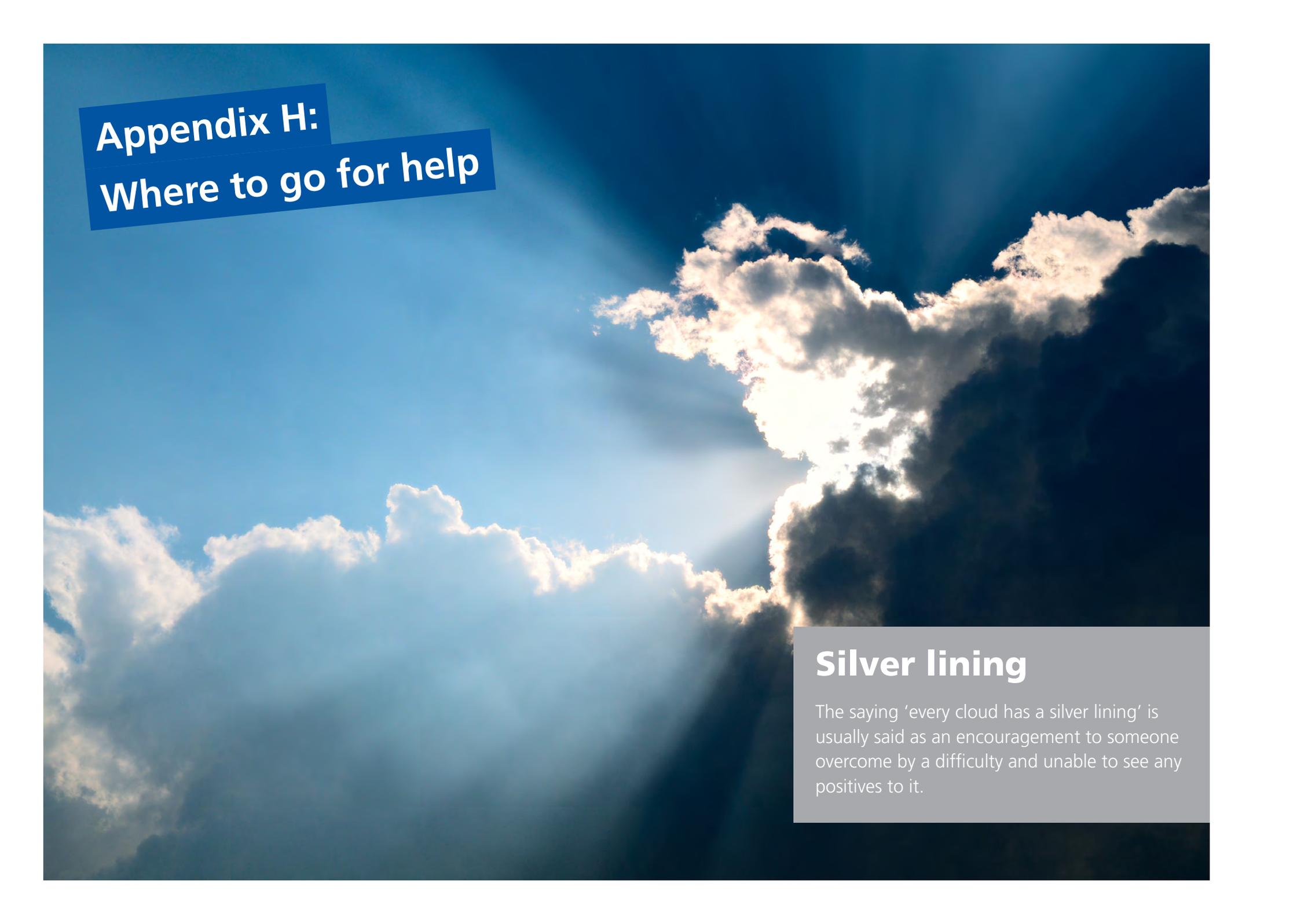
Years	DC Long Term Growth Lifestyle	
	Before charges	After all costs and charges
1	£7,618	£7,581
3	£13,274	£13,110
5	£19,529	£19,159
10	£38,138	£36,819
15	£61,765	£58,675
20	£91,551	£85,549
25	£128,881	£118,415
30	£175,445	£158,425
35	£233,292	£206,941
40	£293,754	£256,513
45	£330,589	£286,196

**Notes:**

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of inflation.
2. The starting pot size is assumed to be £5,000.
3. Inflation is assumed to be 2.5% each year.
4. Member is assumed to be aged 20, with a target retirement age of 65.
5. Monthly contributions are assumed to start at £200, increasing at 4% (assumed earnings inflation of 1.5%) each year until target retirement age.
6. The assumed growth rates for each fund are as follows:

Funds	Assumed growth rates	Costs and charges
Long Term Growth Fund	6.50%	0.61%
Global Equity Fund	5.75%	0.20%
Aggregate Bond Fund	2.25%	0.31%
Index Linked and Global Bond Fund	2.00%	0.29%
Deposit Fund	1.25%	0.19%

7. The assumed growth rates, costs and charges for the default arrangements reflect those of the underlying funds that are held at each point in time.
8. Costs and charges include property expenses and transaction costs.
9. Transaction costs are based on an average of the last 5 years, all other costs and charges are forward looking estimates.
10. Values shown are estimates and are not guaranteed.



## Appendix H: Where to go for help

### **Silver lining**

The saying 'every cloud has a silver lining' is usually said as an encouragement to someone overcome by a difficulty and unable to see any positives to it.

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### Trustee and RPMI Railpen

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Company Secretary  
Railways Pension Trustee Company Limited  
7th Floor  
Exchange House  
12 Exchange Square  
London  
EC2A 2NY

**T:** 020 7330 6800  
**E:** enquiries@rpmico.co.uk  
**W:** www.rpmico.co.uk

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### RPMI

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Further information about the Scheme and individual entitlements can be obtained from:

Director of Rail Administration  
RPMI  
Stooperdale Offices  
Brinkburn Road  
Darlington  
DL3 6EH

**T:** 0800 2 343434 (Customer Services Team)  
**E:** csu@rpmico.co.uk  
**W:** www.railwayspensions.co.uk

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### The Pensions Advisory Service

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TPAS is an independent voluntary organisation with local advisers who are experts in pension matters. TPAS can be contacted either through any local Citizens Advice Bureau or at the following address:

The Pensions Advisory Service  
11 Belgrave Road  
London  
SW1V 1RB

**T:** 0800 011 3797  
**Online enquiry:**  
www.pensionsadvisoryservice.org.uk/  
contacting-us/online-enquiry-form  
**W:** www.pensionsadvisoryservice.org.uk

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### Pensions Ombudsman

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If TPAS cannot resolve a complaint or dispute then the Pensions Ombudsman could be contacted at the following address:

The Office of the Pensions Ombudsman  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

**T:** 0800 917 4487  
**E:** enquiries@pensions-ombudsman.org.uk  
**W:** www.pensions-ombudsman.org.uk

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### The Pensions Regulator

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The Pensions Regulator can be contacted at the following address:

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

**T:** 0345 600 0707  
**E:** customersupport@tpr.gov.uk  
**W:** www.thepensionsregulator.gov.uk

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### Pensions Tracing Service

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Information about UK schemes (including a contact address) is provided to the DWP Pension Tracing Service. This enables members to trace benefits from previous employers' schemes.

The DWP's Pension Tracing Service can be contacted at the following address:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

**T:** 0800 731 0193  
**W:** www.gov.uk/find-lost-pension

RPS Registration number is: 10203279

# Appendix I: Pooled fund accounts



## Silver hallmark

In the UK, a hallmark is an official mark put on objects made of gold or silver that shows their place and year of origin and how pure the metal is that is used to make them.

## Introduction

This appendix represents a consolidated summary of the Annual Report and non-statutory audited accounts of the pooled funds of the railways pension schemes for the year ended 31 December 2019. The non-statutory accounts have been prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102) and with the guidance set out in the Statement of Recommended Practice (the 'SORP').

The total valuation of the pooled assets as at 31 December 2019 was £30,542.20 (2018: £27,243.31m). There are in addition £1,006.60m (2018: £987.49m) of assets held directly by the railways pension schemes not included in the pooled fund arrangements, bringing total assets to £31,548.80m (2018: £28,230.80m).

The pooled funds operate as internal unit trusts. They comprise a key element of the arrangements that the Trustee has put in place for the investment of schemes' and sections' assets and provide the railways pension schemes with a means to invest in a wide range of asset classes.

The range of pooled funds has been reviewed and simplified in recent years to ensure it is flexible enough to be tailored to the needs and particular circumstances of the railways pension schemes whilst also allowing assets to be invested, as far as possible, as if they belonged to a single pension fund.

The table on page 90 summarises the investments of each of these pooled funds as at 31 December 2019. The notes on pages 96 to 110 analyse the total pooled assets of £30,542.20 into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years is set out on page 99, and the unit prices on page 100.

## Accounting policies

### Investments

Investments are held at fair value. The principal bases of investment valuation adopted by the pooled funds are set out below:

- a. Listed investments are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.
- b. Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.
- c. Unquoted securities, including most investments in private equity and infrastructure, are included at the Trustee's estimate of accounting fair value based on advice from the investment managers or other third party advisors.
- d. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price, where there are no bid/offer spreads, as provided by the investment managers.
- e. The pooled investment vehicle managed by OneFamily Lifetime Mortgages Limited held by the Long Term Income Pooled Fund is stated fair value. This asset has been valued independently by Ernst and Young who have used agreed assumptions to model expected cashflows and discount back to valuation date.
- f. Properties are included at open market value as at the year end date determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by independent external valuers, Knight Frank and CBRE. Knight Frank and CBRE have experience in the locations and class of investment properties held by the Trustee.
- g. Exchange traded derivatives are stated at fair value determined using market quoted prices. Over the counter ('OTC') derivatives are stated at the Trustee Company's estimate of accounting fair value based on advice from third party vendors, external valuers retained by the Trustee through BNY Mellon, who provide a valuation service independent of the fund managers, using pricing models and relevant market data at the year end date.
- h. Forward foreign exchange contracts are valued at the forward rate at the year end date.
- i. All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.
- j. Loans and deposits, current assets and current liabilities are included at book cost, which the Trustee considers represents a reasonable estimate of fair value.

### Foreign currencies

Balances denominated in foreign currencies are translated at the rate ruling at the net assets statement date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.



## Silversword

The Hawaiian silversword – ‘ahinahina’ (“very grey”) – is an exceptionally rare and endangered plant, unique to Hawaii.

### Investment income

Investment income is included in the accounts on the following bases:

- a. Dividends from quoted equities are accounted for when the security is declared ex-div.
- b. Interest is accrued on a daily basis.
- c. Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.
- d. Commission recapture and securities lending commission are accounted for on a receivable basis.
- e. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- f. Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles, reflected in the unit price and reported within the change in market value.
- g. Income has been accumulated within the unit prices of the pooled funds and no income distributions have been made to the participating schemes.

### Subsidiaries and consolidation

Several properties in the Property Pooled Fund are owned by means of an exempt unauthorised unit trust, English limited partnerships, Jersey unit trusts and a number of companies.

In all cases, the share capital or units in all the entities in question are held either directly or indirectly for the beneficial entitlement of the Property Pooled Fund. All the entities are controlled

by the Trustee on behalf of the Property Pooled Fund, and hence fall to be subsidiary undertakings of the pooled fund. They have been included in the pooled fund accounts on a full consolidation basis. This consolidation is done voluntarily as this is not a requirement of the SORP.

### Derivative contracts: objectives and policies

The Trustee has authorised the use of derivatives by investment managers as part of the investment strategy. Derivatives may only be used by investment managers where they are specifically permitted in the investment management agreement, and each manager must comply with the Trustee’s approved derivatives policy.

Investment in derivative instruments may be made only in so far as they contribute to a reduction of risk, or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income).

### Unit transactions

Units issued and redeemed during the year are shown on a gross basis and include in-specie transfers between sections and pooled funds.

## Fund statement as at 31 December 2019

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other assets	Other liabilities	Cross holdings	Net assets attributable to unit holders
Pooled Fund	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Growth	11,564.69	-	-	-	3,636.88	300.55	(0.22)	2,763.34	63.02	(17.06)	2,120.15	20,431.35
Private Equity	12.24	-	-	-	2,135.64	-	-	74.61	0.03	(0.99)	-	2,221.53
Property	-	-	-	1,861.12	-	-	-	167.06	125.65	(33.71)	-	2,120.12
Defined Contribution	-	-	-	-	264.30	-	-	292.20	0.84	(1.12)	1,046.67	1,602.89
Illiquid Growth	364.55	12.08	-	-	1,021.50	-	-	133.68	3.23	(1.24)	0.71	1,534.51
Government Bond	-	1,385.88	-	-	-	-	-	1.64	8.11	(0.43)	-	1,395.20
Passive Equity	-	-	-	-	996.51	-	-	0.30	-	(0.29)	-	996.52
Long Term Income	15.73	91.64	-	14.96	665.76	-	-	26.85	0.53	(0.59)	-	814.88
Short Duration Index	-	-	758.42	-	-	-	-	15.39	0.63	(0.16)	-	774.28
Linked Bond												
Global Equity	-	-	-	-	714.01	-	-	0.32	-	(0.28)	-	714.05
Non Government Bond	-	430.55	-	-	-	2.32	(0.01)	15.61	5.11	(0.29)	-	453.29
Infrastructure	-	-	-	-	326.55	-	-	84.99	0.03	(0.16)	-	411.41
Long Duration Index	-	-	187.64	-	-	-	-	1.59	0.12	(0.08)	-	189.27
Linked Bond												
Cash	-	-	-	-	-	-	-	50.45	0.04	(0.06)	-	50.43
Cross Holdings											(3,167.53)	(3,167.53)
<b>Total</b>	<b>11,957.21</b>	<b>1,920.15</b>	<b>946.06</b>	<b>1,876.08</b>	<b>9,761.15</b>	<b>302.87</b>	<b>(0.23)</b>	<b>3,628.03</b>	<b>207.34</b>	<b>(56.46)</b>	<b>-</b>	<b>30,542.20</b>
%	39.15	6.29	3.10	6.14	31.96	0.99	-	11.88	0.68	(0.19)	-	100.00

The accounting policies on page 89 and the notes on pages 96 to 110 form part of these accounts.

## Analysis of cross holdings

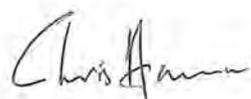
	Growth	Long Duration Index Linked Bond	Infrastructure	Property	Private Equity	Non Government Bond	Total Cross Holdings
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Growth	-	-	-	2,120.12	0.03	-	2,120.15
Defined Contribution	1,004.74	13.37	-	-	-	28.56	1,046.67
Illiquid Growth	-	-	0.24	-	0.47	-	0.71
<b>Total</b>	<b>1,004.74</b>	<b>13.37</b>	<b>0.24</b>	<b>2,120.12</b>	<b>0.50</b>	<b>28.56</b>	<b>3,167.53</b>

The accounting policies on page 89 and the notes on pages 96 to 110 form part of these accounts.

## Movement in unit holders' funds

	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Net reinvested income	Change in cross holdings	Total unit holders' funds
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Growth	17,691.86	121.83	(555.46)	2,914.80	258.32	-	20,431.35
Private Equity	2,353.24	21.00	(459.26)	309.83	(3.28)	-	2,221.53
Property	2,098.67	-	(110.00)	28.40	103.05	-	2,120.12
Defined Contribution	1,395.56	199.21	(202.00)	209.81	0.31	-	1,602.89
Illiquid Growth	1,049.98	423.10	(-)	55.11	6.32	-	1,534.51
Government Bond	1,454.68	20.78	(104.56)	0.15	24.15	-	1,395.20
Passive Equity	803.42	4.72	(15.41)	205.12	(1.33)	-	996.52
Long Term Income	665.57	96.23	(2.25)	55.97	(0.64)	-	814.88
Short Duration Index Linked Bond	792.19	23.15	(51.01)	(8.23)	18.18	-	774.28
Global Equity	662.97	-	(81.72)	133.47	(0.67)	-	714.05
Infrastructure	442.21	-	(49.00)	18.17	0.03	-	411.41
Non Government Bond	427.06	6.65	(29.87)	33.79	15.66	-	453.29
Long Duration Index Linked Bond	197.95	15.97	(40.03)	12.92	2.46	-	189.27
Cash	194.64	5.02	(150.46)	-	1.23	-	50.43
Cross Holdings	(2,986.69)					(180.84)	(3,167.53)
<b>Total</b>	<b>27,243.31</b>	<b>937.66</b>	<b>(1,851.03)</b>	<b>3,969.31</b>	<b>423.79</b>	<b>(180.84)</b>	<b>30,542.20</b>

Approved on behalf of the Trustee Company on 19 May 2020.



**Christopher Hannon**  
Chair, Trustee Company



**Meliha Duymaz Oludipe**  
Director and Chair, Audit and Risk Committee

The accounting policies on page 89 and the notes on pages 96 to 110 form part of these accounts.

## Fund statement as at 31 December 2018

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other assets	Other liabilities	Cross holdings	Net assets attributable to unit holders
Pooled Fund	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Growth	8,967.01	129.32	1,346.61	-	3,814.71	24.17	(167.21)	1,453.90	43.76	(19.12)	2,098.71	17,691.86
Private Equity	-	-	-	-	2,262.82	0.01	-	91.25	0.04	(0.88)	-	2,353.24
Property	-	-	-	1,916.67	-	-	-	179.61	38.57	(36.18)	-	2,098.67
Government Bond	-	1,365.14	-	-	-	-	-	82.11	7.90	(0.47)	-	1,454.68
Defined Contribution	-	43.11	-	-	206.34	-	-	258.38	1.07	(1.32)	887.98	1,395.56
Illiquid Growth	135.77	6.68	-	-	876.39	0.01	-	31.54	0.03	(0.44)	-	1,049.98
Passive Equity	-	-	-	-	803.37	-	-	0.31	-	(0.26)	-	803.42
Short Duration Index Linked Bond	-	-	763.36	-	-	-	-	28.37	0.59	(0.13)	-	792.19
Long Term Income	-	54.06	-	-	596.89	-	-	12.91	1.98	(0.27)	-	665.57
Global Equity	-	-	-	-	563.23	0.71	(5.20)	104.49	0.09	(0.35)	-	662.97
Infrastructure	-	-	-	-	435.76	-	-	6.65	-	(0.20)	-	442.21
Non Government Bond	-	407.92	-	-	-	0.23	(9.20)	23.40	5.08	(0.37)	-	427.06
Long Duration Index Linked Bond	-	-	195.58	-	-	-	-	2.31	0.14	(0.08)	-	197.95
Cash	-	-	-	-	-	-	-	194.59	0.12	(0.07)	-	194.64
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(2,986.69)	(2,986.69)
<b>Total</b>	<b>9,102.78</b>	<b>2,006.23</b>	<b>2,305.55</b>	<b>1,916.67</b>	<b>9,559.51</b>	<b>25.13</b>	<b>(181.61)</b>	<b>2,469.82</b>	<b>99.37</b>	<b>(60.14)</b>	<b>-</b>	<b>27,243.31</b>
%	33.41	7.36	8.46	7.04	35.09	0.10	(0.67)	9.07	0.36	(0.22)	-	100.00

The accounting policies on page 89 and the notes on pages 96 to 110 form part of these accounts.

## Analysis of cross holdings

	Growth	Long Duration Index Linked Bond	Property	Private Equity	Non Government Bond	Total Cross Holdings
Pooled Fund	£m	£m	£m	£m	£m	£m
Growth	-	-	2,098.67	0.04	-	2,098.71
Defined Contribution	853.25	11.72	-	-	23.01	887.98
<b>Total</b>	<b>853.25</b>	<b>11.72</b>	<b>2,098.67</b>	<b>0.04</b>	<b>23.01</b>	<b>2,986.69</b>

The accounting policies on page 89 and the notes on pages 96 to 110 form part of these accounts.

## Movement in unit holders' funds

	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested net income	Change in cross holdings	Total unit holders' funds
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Growth	18,992.36	253.19	(696.11)	(1,107.28)	249.70	-	17,691.86
Private Equity	2,255.27	6.52	(444.10)	537.42	(1.87)	-	2,353.24
Property	1,964.68	31.00	-	10.34	92.65	-	2,098.67
Government Bond	1,961.32	288.73	(803.72)	(18.99)	27.34	-	1,454.68
Defined Contribution	1,460.26	179.76	(183.63)	(59.94)	(0.89)	-	1,395.56
Illiquid Growth	469.05	485.00	(24.60)	121.77	(1.24)	-	1,049.98
Passive Equity	909.88	1.84	(35.80)	(71.41)	(1.09)	-	803.42
Short Duration Index Linked Bond	112.81	735.78	(74.28)	(1.68)	19.56	-	792.19
Long Term Income	329.90	374.33	(18.33)	(19.49)	(0.84)	-	665.57
Global Equity	795.79	-	(74.83)	(58.33)	0.34	-	662.97
Infrastructure	608.37	-	(245.00)	79.23	(0.39)	-	442.21
Non Government Bond	622.62	17.49	(194.85)	(37.87)	19.67	-	427.06
Long Duration Index Linked Bond	221.39	13.65	(33.95)	(7.18)	4.04	-	197.95
Cash	302.82	133.05	(242.89)	-	1.66	-	194.64
Cross Holdings	(2,895.88)	-	-	-	-	(90.81)	(2,986.69)
<b>Total</b>	<b>28,110.64</b>	<b>2,520.34</b>	<b>(3,072.09)</b>	<b>(633.41)</b>	<b>408.64</b>	<b>(90.81)</b>	<b>27,243.31</b>

The accounting policies on page 89 and the notes on pages 96 to 110 form part of these accounts.

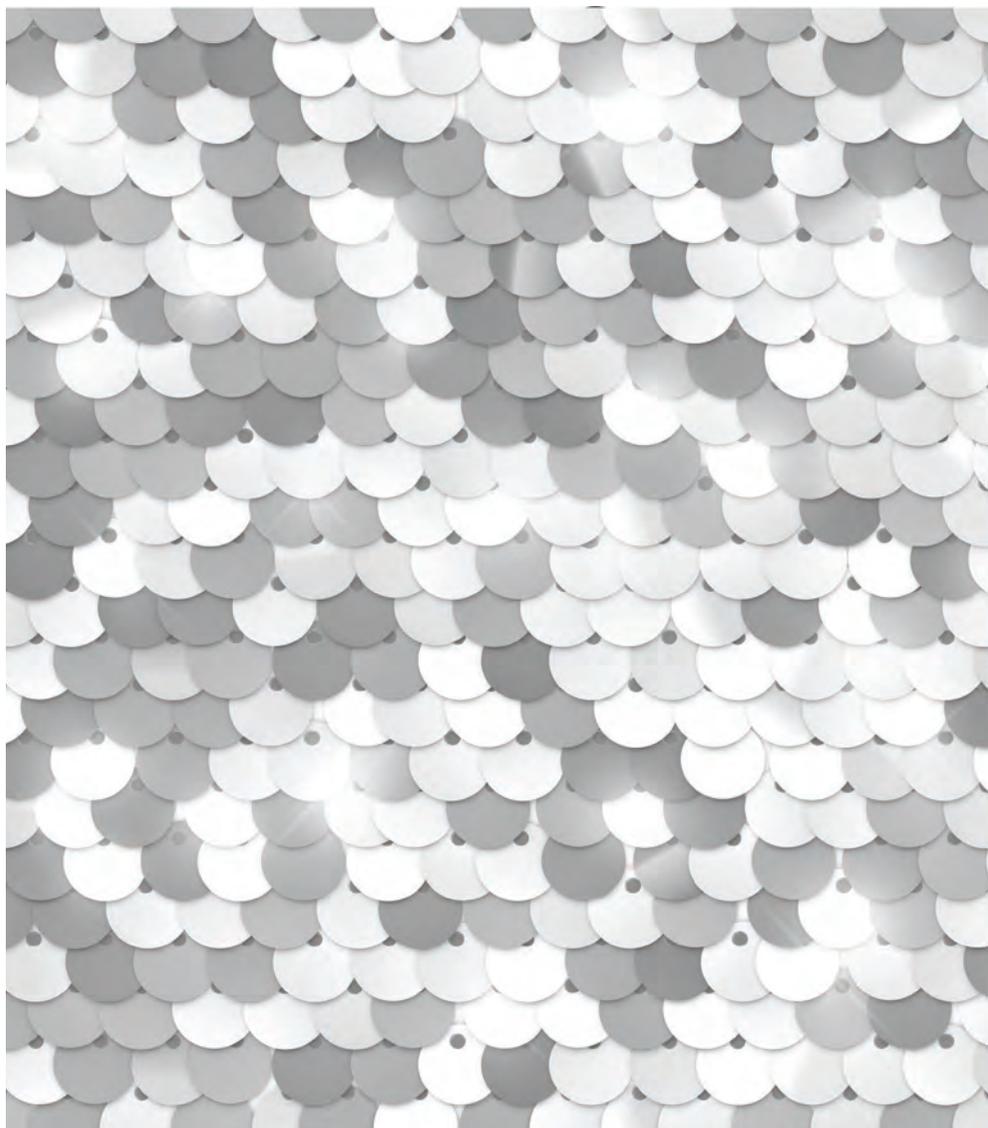
## 1.1 Fund statements as at 31 December 2019

Assets	Notes	2019 £m	2018 £m
Equities		11,957.21	9,102.78
Fixed interest securities		1,920.15	2,006.23
Indexed linked securities		946.06	2,305.55
UK Property		1,876.08	1,916.67
Pooled investment vehicles	1.5	9,761.15	9,559.51
<b>Derivative contracts</b>			
Futures - exchange traded	1.6	24.72	24.17
FX contracts - OTC	1.6	278.15	0.96
<b>Other assets</b>			
Other investment assets	1.7	134.67	87.26
Current assets	1.8	72.67	12.11
Cash deposits and cash instruments	1.9	3,628.03	2,469.82
<b>Total assets</b>		<b>30,598.89</b>	<b>27,485.06</b>

Liabilities	Notes	2019 £m	2018 £m
<b>Derivative contracts</b>			
Futures - exchange traded	1.6	(0.22)	(35.89)
FX contracts - OTC	1.6	(0.01)	(145.72)
<b>Other liabilities</b>			
Other investment liabilities	1.10	(1.72)	(2.08)
Current liabilities	1.11	(54.74)	(58.06)
<b>Total liabilities</b>		<b>(56.69)</b>	<b>(241.75)</b>
<b>Net assets attributable to unit holders</b>		<b>30,542.20</b>	<b>27,243.31</b>

# Silver sequins

In the 1930s, sequins were made of gelatin, however it melted and also dissolved in water, so wearing sequin dresses in the rain was a disaster.



## Appendix I: Pooled fund accounts

### 1.2 Pooled fund unit prices as at 31 December

	2019 £/unit	2018 £/unit
Growth Pooled Fund	21.04	17.82
Property Pooled Fund	98.02	92.16
Government Bond Pooled Fund	13.62	13.40
Illiquid Growth Pooled Fund	15.26	14.47
Passive Equity Pooled Fund	21.37	17.03
Short Duration Index Linked Bond Pooled Fund	10.28	10.16
Long Term Income Pooled Fund	8.81	8.28
Global Equity Pooled Fund	109.76	90.70
Infrastructure Pooled Fund	21.93	20.95
Non Government Bond Pooled Fund	15.79	14.11
Long Duration Index Linked Bond Pooled Fund	100.08	92.65
Cash Pooled Fund	10.44	10.37
<b>Private Equity Pooled Fund</b>		
Direct Investment Pooled Fund 2000	11.22	14.43
Private Equity Pooled Fund 2001	41.51	50.15
Private Equity Pooled Fund 2004	38.90	38.29
Private Equity Pooled Fund 2005	44.80	42.67
Private Equity Pooled Fund 2007	37.20	33.78
Private Equity Pooled Fund 2009	41.70	38.57
Private Equity Pooled Fund 2011	36.75	32.04
Private Equity Pooled Fund 2013	29.72	21.78
<b>Defined Contribution Pooled Fund</b>		
DC Global Equity Fund	17.74	14.15
DC Long Term Growth Fund	17.11	14.51
DC Deposit Fund	10.23	10.17
DC Index Linked and Global Bond Fund	15.25	13.87
DC Aggregate Bond Fund	14.58	13.03

## 1.3 Value of the Pooled Funds

	2019 £m	2018 £m
Growth Pooled Fund	20,431.35	17,691.86
Private Equity Pooled Fund*	2,221.53	2,353.24
Property Pooled Fund	2,120.12	2,098.67
Defined Contribution Pooled Fund*	1,602.89	1,395.56
Illiquid Growth Pooled Fund	1,534.51	1,049.98
Passive Equity Pooled Fund	1,395.20	1,454.68
Government Bond Pooled Fund	996.52	803.42
Long Term Income Pooled Fund	814.88	665.57
Short Duration Index Linked Bond Pooled Fund	774.28	792.19
Global Equity Pooled Fund	714.05	662.97
Non Government Bond Pooled Fund	453.29	427.06
Infrastructure Pooled Fund	411.41	442.21
Long Duration Index Linked Bond Pooled Fund	189.27	197.95
Cash Pooled Fund	50.43	194.64
<b>Cross holdings</b>		
Property Pooled Fund	(2,120.12)	(2,098.67)
Growth Pooled Fund	(1,004.74)	(853.25)
Non Government Bond Pooled Fund	(28.56)	(23.01)
Long Duration Index Linked Bond Pooled Fund	(13.37)	(11.72)
Private Equity Pooled Fund	(0.50)	(0.04)
Infrastructure Pooled Fund	(0.24)	-
<b>Net assets attributable to unit holders</b>	<b>30,542.20</b>	<b>27,243.31</b>

\* See breakdown into pooled fund segments, right.

	2019 £m	2018 £m
<b>Private Equity Pooled Fund</b>		
Direct Investment Pooled Fund 2000	2.42	3.39
Private Equity Pooled Fund 2001	27.00	40.27
Private Equity Pooled Fund 2004	23.23	29.47
Private Equity Pooled Fund 2005	45.48	62.98
Private Equity Pooled Fund 2007	718.02	841.14
Private Equity Pooled Fund 2009	208.51	239.04
Private Equity Pooled Fund 2011	847.70	853.16
Private Equity Pooled Fund 2013	349.17	283.79
	<b>2,221.53</b>	<b>2,353.24</b>
<b>Defined Contribution Pooled Fund</b>		
DC Long Term Growth Fund	1,006.49	854.34
DC Deposit Fund	288.96	299.48
DC Global Equity Fund	250.15	195.70
DC Index Linked and Global Bond Fund	26.97	23.57
DC Aggregate Bond Fund	30.32	22.47
	<b>1,602.89</b>	<b>1,395.56</b>

## 1.4 Investment income

	2019 £m	2018 £m
Dividends from equities	273.04	232.86
Income from fixed interest securities	43.97	53.59
Income from index linked securities	42.03	64.97
Income from pooled investment vehicles	4.99	3.74
Income from securities lending	4.13	1.43
Income from UK property	120.01	107.90
Interest from cash deposits	26.71	16.35
Other income	2.19	1.43
	<b>517.07</b>	<b>482.27</b>
Irrecoverable withholding tax	(14.38)	(11.30)
<b>Total income</b>	<b>502.69</b>	<b>470.97</b>
Administration, custody and other expenses	(30.55)	(25.66)
Investment management fees - base	(6.06)	(7.39)
RPMI fees	(41.16)	(28.06)
Irrecoverable VAT	(0.25)	(0.27)
Tax	(0.88)	(0.95)
	<b>(78.90)</b>	<b>(62.33)</b>
<b>Reinvested net income</b> (accrued in unit prices)	<b>423.79</b>	<b>408.64</b>

## 1.5 Pooled investment vehicles

The pooled funds had holdings in pooled investment vehicles at the year end that can be analysed as follows:

	2019 £m	2018 £m
UK unquoted - unitised insurance policies	2,361.08	2,891.00
UK unquoted - partnerships	1,067.51	1,084.19
UK unquoted - other managed funds	694.47	607.34
UK quoted - other managed funds	-	72.44
Overseas unquoted - partnerships	3,639.00	3,598.68
Overseas unquoted - other managed funds	1,946.71	1,217.63
Overseas unquoted - hedge funds	52.38	88.23
	<b>9,761.15</b>	<b>9,559.51</b>

The pooled funds are the sole investor in twenty (2018: thirteen) pooled investment vehicles included within the above analysis. The assets underlying these sole investor pooled investment vehicles are:

	2019 £m	2018 £m
Fixed interest securities	378.93	336.33
Insurance	347.20	108.74
Private equity	270.31	63.06
Royalties	107.59	125.09
	<b>1,104.03</b>	<b>633.22</b>

## 1.6 Derivative contracts

**Futures:** Future contracts are standardised, transferable, exchange traded contracts that require delivery of a commodity, bond, currency or stock index, at a specified price, on a specified future date. The details of open futures contracts at the year end are as follows:

Type of future	Duration	Notional value at year end	Asset value at year end	Liability value at year end
		£m	£m	£m
S&P indices	Mar 2020	878.67	13.89	-
MSCI EM indices	Mar 2020	505.94	9.91	-
Japanese topix index	Mar 2020	383.76	0.92	-
Euro Stoxx index	Mar 2020	101.64	-	(0.22)
		<b>1,870.01</b>	<b>24.72</b>	<b>(0.22)</b>

Included within cash balances is £64.08m in respect of initial and variation margins deposited with brokers regarding open futures contracts at the year end.

**Forward foreign exchange ('FX') contracts:** The pooled funds had open FX contracts at the year end as follows:

Type of contract	Settlement Date	Currency bought million	Currency sold million	Value at year end £m
<b>Assets</b>				
Sterling / US dollar	Jan – Apr 2020	5861.79	(7442.76)	252.86
Sterling / Euro	Jan – Feb 2020	998.97	(1,160.00)	14.66
Euro / US dollar	Mar 2020	438.00	(485.59)	5.96
Sterling / Japanese yen	Jan 2020	81.54	(11,326.20)	2.81
Sterling / Swiss franc	Jan 2020	165.73	(210.00)	1.86
				<b>278.15</b>
<b>Liabilities</b>				
Sterling / Euro	Jan 2020	80.96	(95.55)	(0.01)
				<b>(0.01)</b>

Under the terms of FX contracts, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above FX contracts the Trustee had received £210.93m cash in respect of collateral at the year end. Contingent collateral received in this way is not reported within the pooled fund's net assets.

Included within net assets is £1.82m of cash in respect of collateral deposited with counterparties relating to open FX contracts at the year end.

## 1.7 Other investments assets

	2019 £m	2018 £m
Asset in respect of investment settlements	22.80	4.05
Investment income accrued	36.27	34.31
Recoverable tax	21.28	17.91
Rent receivable	54.32	30.99
	<b>134.67</b>	<b>87.26</b>

## 1.8 Current assets

	2019 £m	2018 £m
Asset in respect of unit trades	0.68	2.61
Trade debtors	70.84	7.19
Tax	0.44	0.34
Vat and other	0.72	1.97
	<b>72.68</b>	<b>12.11</b>

## 1.9 Cash deposits and cash instruments

	2019 £m	2018 £m
Cash held in liquidity funds	3,444.14	1,873.98
Cash held at brokers in respect of futures margin	64.08	92.73
Cash at bank	117.99	351.34
Cash collateral held by counterparties	1.82	151.77
	<b>3,628.03</b>	<b>2,469.82</b>

## 1.10 Other investment liabilities

	2019 £m	2018 £m
Liability in respect of investment settlements	(0.08)	(1.37)
Tax payable	(1.64)	(0.71)
	<b>(1.72)</b>	<b>(2.08)</b>

## 1.11 Current liabilities

	2019 £m	2018 £m
Accrued management fees and expenses	(20.38)	(20.50)
Property income received in advance	(19.97)	(21.32)
Trade creditors	(9.81)	(8.78)
Liability in respect of unit trades	(0.95)	(2.02)
Tax	(2.79)	(4.89)
VAT and other	(0.84)	(0.55)
	<b>(54.74)</b>	<b>(58.06)</b>

## 1.12 Securities lending

The Trustee has given approval to custodians to lend securities in the market. A principal condition of this approval is that borrowers must meet the Trustee's collateral specifications and a permanent restriction is in place that ensures that shares held in companies that are sponsoring employers of the Railway Pension Scheme are not included in the lending programme.

Further details on the securities lending policy can be found on page 48.

At 31 December 2019, the market valuation of securities that had been lent in the market was £2,028.56m (2018: £2,520.22m).

Collateral held in respect of the securities on loan at 31 December 2019 had a total value of £2,167.59m (2018: £2,725.32m).

## 1.13 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2018	Units issued/ (redeemed)	Net income	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2019
	£m	£m	£m	£m	£m	£m	£m
<b>Directly held assets</b>							
Equities	9,102.78	-	-	8,903.35	(7,838.31)	1,789.39	11,957.21
Fixed interest securities	2,006.23	-	-	330.23	(440.17)	23.86	1,920.15
Index linked securities	2,305.55	-	-	362.07	(2,006.08)	284.52	946.06
Pooled investment vehicles	9,559.51	-	-	2,796.07	(3,684.15)	1,089.72	9,761.15
UK property	1,916.67	-	-	80.16	(149.65)	28.90	1,876.08
	<b>24,890.74</b>	-	-	<b>12,471.88</b>	<b>(14,118.36)</b>	<b>3,216.39</b>	<b>26,460.65</b>
<b>Derivatives</b>							
Futures	(11.72)	-	-	16.84	(293.73)	313.11	24.50
FX contracts	(144.76)	-	-	2,020.50	(1,784.87)	187.27	278.14
	<b>(156.48)</b>	-	-	<b>2,037.34</b>	<b>(2,078.60)</b>	<b>500.38</b>	<b>302.64</b>
<b>Cross holdings</b>	2,986.69	-	-	27.84	(136.66)	289.66	3,167.53
<b>Other</b>							
Cash and current assets	2,509.05	(913.37)	423.79	(14,537.06)	16,333.62	(37.12)	3,778.91
	<b>30,230.00</b>	<b>(913.37)</b>	<b>423.79</b>	-	-	<b>3,969.31</b>	<b>33,709.73</b>
<b>Cross holdings</b>	(2,986.69)						(3,167.53)
<b>Net assets</b>	<b>27,243.31</b>						<b>30,542.20</b>



## Silver bullets

In fiction, silver bullets are believed to be the only way to kill evil supernatural beings, like werewolves and witches.

### Appendix I: Pooled fund accounts

#### 1.14 Transaction costs

Included within the pooled funds' purchases and sales in note 1.13 are direct transaction costs of £11.88m (2018: £20.36m) comprising mainly of fees, commissions, stamp duty land tax and legal fees. Included within pooled funds' expenses in note 1.4 are direct transaction costs of £0.95m (2018: £0.55m) relating to legal and due diligence fees.

Together these costs are attributable to the key asset classes as follows:

Year to 31 December 2019	Fees £m	Commission £m	Stamp duty land tax £m	Legal and other £m	Total £m
Equities	3.78	3.07	-	-	6.85
Futures	-	0.04	-	-	0.04
Fixed interest securities	-	0.30	-	-	0.30
Pooled investment vehicles	-	2.17	0.87	1.07	4.11
UK property	-	-	0.70	0.83	1.53
	<b>3.78</b>	<b>5.58</b>	<b>1.57</b>	<b>1.90</b>	<b>12.83</b>

Year to 31 December 2018	Fees £m	Commission £m	Stamp duty land tax £m	Legal and other £m	Total £m
Equities	4.46	3.67	-	-	8.13
Futures	-	0.41	-	-	0.41
Pooled investment vehicles	-	2.61	-	1.40	4.01
UK property	-	-	7.35	1.01	8.36
	<b>4.46</b>	<b>6.69</b>	<b>7.35</b>	<b>2.41</b>	<b>20.91</b>

Transaction costs are also borne by the pooled funds in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

### 1.15 Investment fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

**Level 1:** The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date

**Level 2:** Inputs other than the quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly

**Level 3:** Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability)

The pooled funds' investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

At 31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Directly held assets</b>				
Equities	11,575.59	16.98	364.64	11,957.21
Fixed interest securities	1,720.97	199.18	-	1,920.15
Index linked securities	946.06	-	-	946.06
Pooled investment vehicles	198.86	3,827.95	5,734.34	9,761.15
UK property	-	-	1,876.08	1,876.08
<b>Derivatives</b>				
Futures	24.50	-	-	24.50
FX contracts	-	278.14	-	278.14
<b>Other</b>				
Cash and current assets	3,778.91	-	-	3,778.91
	<b>18,244.89</b>	<b>4,322.25</b>	<b>7,975.06</b>	<b>30,542.20</b>

At 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Directly held assets</b>				
Equities	8,965.60	1.32	135.86	9,102.78
Fixed interest securities	1,859.65	146.58	-	2,006.23
Index linked securities	2,305.55	-	-	2,305.55
Pooled investment vehicles	72.44	4,079.79	5,407.28	9,559.51
UK property	-	-	1,916.67	1,916.67
<b>Derivatives</b>				
Futures	(11.72)	-	-	(11.72)
FX contracts	-	(144.76)	-	(144.76)
<b>Other</b>				
Cash and current assets	2,509.05	-	-	2,509.05
	<b>15,700.57</b>	<b>4,082.93</b>	<b>7,459.81</b>	<b>27,243.31</b>

## 1.16 Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The pooled funds have exposure to these risks because of the investments they make to implement their investment strategies. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the pooled funds' strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the pooled funds' investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the pooled funds' exposures to credit and market risks is set out to the right.

A summary of risk exposure for the pooled funds is provided below:

Strategic asset class groupings	2019 £m	2018 £m	Credit risk	Market risk		
				Interest rate risk	Currency risk	Other price risk
Equities	11,957.21	9,102.78	●	●	●	●
Fixed interest securities	1,920.15	2,006.23	●	●	●	●
Index linked securities	946.06	2,305.55	●	●	●	●
Pooled investment vehicles	9,761.15	9,559.51	●	●	●	●
UK Property	1,876.08	1,916.67	●	●	●	●
Futures	24.50	(11.72)	●	●	●	●
Fx contracts	278.14	(144.76)	●	●	●	●
Cash and other assets	3,778.91	2,509.05	●	●	●	●
	<b>30,542.20</b>	<b>27,243.31</b>				

- Significant exposure
- Some exposure
- No exposure

**Credit risk**

The pooled funds are subject to credit risk as they invest in fixed interest securities, OTC derivatives, have cash balances and undertake securities lending activities. The pooled funds also invest in pooled investment vehicles and are therefore directly exposed to credit risk in relation to the instruments they hold in the pooled investment vehicles and are indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Credit risk arising on fixed interest securities is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds, which are rated at least investment grade. The pooled funds also invest in high yield and emerging market bonds, some of which are non-investment grade. The Trustee manages the associated credit risk by requesting the investment managers to diversify their portfolios to minimise the impact of default by any one issuer.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Pooled Fund is subject to risk of failure of the counterparty. Credit risk also arises on forward foreign currency contracts. There are collateral arrangements for some of these contracts and all counterparties are required to be at least investment grade. FX collateral balances are detailed in note 1.6.

The pooled funds lend certain fixed interest and equity securities under a Trustee approved securities lending programme. The Trustee manages the credit risk arising from securities lending activities by restricting the amount of overall securities that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. Details regarding securities lending are provided in note 1.12.

Cash is held within financial institutions which are investment grade credit rated.

The pooled funds holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

**Currency risk**

The pooled funds are subject to currency risk because some of the pooled funds' investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy.

**Interest rate risk**

The pooled funds are subject to interest rate risk on fixed interest securities and index linked securities held either as segregated investments or through pooled vehicles.

**Other price risk**

Other price risk arises principally in relation to the pooled funds investments in directly held equities, equities held in pooled vehicles, equity futures, property, property pooled investment vehicles, hedge funds and private equity.

The pooled funds manage this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

### 1.17 Investment managers during the year

The investment managers used by the pooled funds during the year together with their net assets under management at the year end were as follows:

	2019 £m	2018 £m
RPMI Railpen*	19,580.92	11,088.59
Legal & General Investment Management	2,361.08	2,625.58
Blackstone Alternative Asset Management	1,233.12	1,129.77
AQR Capital Management	814.89	1,904.20
Horsley Bridge Partners	535.60	568.03
Aspect Capital Limited	478.24	299.06
Insight Investment	466.36	441.66
Credit Suisse ILS Limited	384.94	362.35
Sequoia Capital	252.61	190.92
Kobalt Music Group	250.93	200.70
OneFamily Lifetime Mortgages Limited	249.86	222.43
Intermediate Capital Group	216.22	308.28
Macquarie Infrastructure	212.09	184.39
Morningside Ventures	178.96	191.07
Owl Rock	154.74	82.14
Columbia Capital	150.15	161.06
Long Harbour	147.88	132.62
Innisfree	129.08	130.05
Goldman Sachs Asset Management	116.99	140.53
Avenue Capital (from June 2019)	112.23	-
HealthCare Royalty Partners	107.58	125.09
Orion Energy Partners	92.07	61.30
Accel Partners	90.94	81.27
Riverside Europe Fund Associates	86.80	130.34
Venor Capital Management	85.58	115.39
Arcus Infrastructure Partners	81.79	152.04
Pensions Infrastructure Platform	75.57	76.98
White Oak	71.44	55.36
<b>Carried forward</b>	<b>28,718.66</b>	<b>21,161.20</b>

	2019 £m	2018 £m
<b>Brought forward</b>	<b>28,718.66</b>	<b>21,161.20</b>
Bain Capital	68.84	74.28
Westbridge Capital Partners	65.61	60.35
HarbourVest Partners	64.36	80.74
Duke Street	62.71	57.91
Amplo	62.04	29.31
WP Global Partners	59.18	48.42
Cranemere	56.73	11.89
Constellation	55.12	41.50
Varde (from September 2019)	50.82	-
Dalmore Capital Limited	50.66	52.60
Thomas Bravo	50.16	39.31
Khosla Ventures	49.55	59.58
Presidio (from March 2019)	49.29	-
Adams Street Partners	45.78	59.14
H.I.G. Capital	39.18	44.17
Great Hill Partners	38.69	48.17
Innovation Works	38.67	38.15
Private Advisors	37.92	24.12
Apax Partners	37.45	52.90
General Atlantic	36.67	41.69
Index Ventures	36.46	27.03
Standard Life Investments	36.26	50.04
General Capital (from December 2019)	35.10	-
Highland Capital Partners	33.01	36.51
Balderton Capital	32.10	33.21
Scale Venture Partners	28.88	37.22
Cinven	27.66	36.52
<b>Carried forward</b>	<b>29,967.56</b>	<b>22,245.96</b>

\*Included in this balance is cash invested in Liquidity Funds totalling £3,587.12m (2018: £1,716.76m)

	2019 £m	2018 £m
<b>Brought forward</b>	<b>29,967.56</b>	<b>22,245.96</b>
Pantheon Ventures	27.56	50.80
KPS Capital Partners	27.26	23.39
Andreessen Horowitz	25.08	23.87
Hony Capital	24.03	26.39
Charlesbank Capital Partners	24.02	25.00
Institutional Venture Partners	23.41	23.57
Anacap Financial Partners	23.35	21.76
Limerston Capital Partners	23.10	18.76
Bessemer Venture Partners	22.08	22.89
Warbug Pinus	21.70	30.97
Mount Elbert	21.47	17.08
Clearsight Investments	21.31	23.54
Local Globe (from June 2019)	21.31	-
Innova	21.24	22.14
ClearVue Partners	21.01	20.50
Grosvenor Capital Management	20.63	36.47
Ares Management	16.79	22.32
Soundcore	16.54	5.58
Motive (from June 2019)	15.55	-
Blossom	14.65	3.30
Navis Capital Partners	13.19	15.22
General Catalyst	12.33	9.91
Sankaty Advisors	11.85	15.34
Domain Partners	11.62	16.44
Berkshire Partners	10.95	9.76
Peak Rock Capital	10.73	13.39
Headland Capital Partners	9.94	8.38
Southern Cross Group	9.25	9.60
Palatine	9.03	5.28
Archer Capital	8.94	14.18
Triton Partners	6.84	9.84
<b>Carried forward</b>	<b>30,514.32</b>	<b>22,791.63</b>

	2019 £m	2018 £m
<b>Brought forward</b>	<b>30,514.32</b>	<b>22,791.63</b>
Amaranthine Partners	6.40	1.77
Oaktree Capital Management	5.96	10.00
CI Capital Investors	5.63	11.57
Abry Partners	3.36	4.56
Astra Capital (from July 2019)	3.19	-
Blakeney Management	2.93	10.34
EQT Funds Management	0.27	14.32
Governance for Owners Group	0.09	0.09
BlackRock Advisors (UK)	0.05	347.49
Northern Trust Asset Management	-	4,051.16
Alinda Capital Partners (to December 2019)	-	0.38
	<b>30,542.20</b>	<b>27,243.31</b>

## 1.18 Performance

Performance is calculated by RPMI based on changes in the relevant pooled fund unit prices, which are net of fees, over the period.

The performance of the Global Equity Pooled Fund is measured against a composite comparator which at the year end comprised:

	2019 %	2018 %
FTSE North America Index	25.00	25.00
FTSE All Share Index	20.00	20.00
FTSE Developed Europe (ex UK) Index	20.00	20.00
FTSE Developed Asia Pacific Index	20.00	20.00
MSCI Emerging Markets Index (50% hedged to GBP)	15.00	15.00
	<b>100.00</b>	<b>100.00</b>

The Global Equity Pooled Fund adopts a passive hedging strategy whereby 50% of the overseas developed markets currency exposure in the pooled fund is hedged back to Sterling.

The comparators that all other pooled funds were measured against during the year are shown in the table below:

Pooled Fund	Comparator
Growth	UK Retail Prices Index plus 4%
Private Equity	MSCI ACWI Index
Property	MSCI UK Monthly Property Index GBP
DC Global Equity Fund	FTSE Developed Markets GBP Hedged
DC Long Term Growth Fund	UK Retail Prices Index plus 4%
DC Deposit	GBP 1M Libor
DC Index Linked and Global Fund	Composite comparator comprising: 50% Bloomberg Barclays Global Gilts over 15 years Index 50% Bloomberg Barclays Global Aggregate Corporate GBP Hedged
DC Aggregate Bond	Composite comparator comprising: 50% FTSE Actuaries UK Conventional Gilts over 15 years Index 50% Bloomberg Barclays Global Aggregate Corporate GBP Hedged
Illiquid Growth	UK Retail Prices Index plus 4%
Government Bond	FTSE World Government Bond Index (WGBI) 3-7 Years GBP
Passive Equity	FTSE Developed Markets GBP Hedged
Long Term Income	UK Retail Prices Index
Short Duration Index Linked Bond	Bloomberg Barclays UK Gilt 1 to 10 Years Index
Infrastructure	UK Retail Prices Index plus 4%
Cash	GBP 1M Libor
Non Government Bond	Bloomberg Barclays Global Aggregate Corporate Index GBP Hedged
Long Duration Index Linked Bond	Bloomberg Barclays UK Gilt 15+ Years Index

The return of each pooled fund as measured by RPMI Railpen is shown in the table below:

Pooled Fund	Actual 2019	Comparator 2019	Actual last 5 years	Comparator last 5 years
	(%)	(%)	(%)	(%)
Growth	18.0	6.3	8.7	6.6
Private Equity	8.5	21.7	18.0	12.0
Property	6.4	6.3	5.0	6.6
Government Bond	1.7	1.9	1.9	1.8
Illiquid Growth <sup>1</sup>	4.3	6.3	10.1	7.0
Passive Equity	25.4	24.8	8.7	8.3
Short Duration Index Linked Bond <sup>1</sup>	1.2	1.6	1.3	1.6
Long Term Income <sup>1</sup>	6.4	2.2	0.8	3.1
Global Equity	20.9	20.3	9.6	9.4
Infrastructure	8.3	6.3	13.6	6.6
Non Government Bond	11.9	10.6	4.0	3.6
Long Duration Index Linked Bond	8.0	8.0	7.7	7.7
Cash	0.7	0.8	0.5	0.5
DC Long Term Growth	17.8	6.3	8.6	8.2
DC Deposit Fund	0.7	0.8	0.4	0.5
DC Global Equity Fund	25.3	24.8	8.6	8.2
DC Aggregate Bond Fund	11.9	11.4	5.2	5.2
DC Index Linked and Global Bond Fund	10.0	9.5	5.9	5.8

<sup>1</sup> These pooled funds have been in existence for less than five years therefore the figures given in the table are since inception returns rather than five year returns.





